




3 1761 11971024 2

CA1  
YC13  
-78A16

GOVT





Digitized by the Internet Archive  
in 2023 with funding from  
University of Toronto

<https://archive.org/details/31761119710242>









Handwritten marks: a circle containing a stylized 'H' and another circle containing the number '6'.

CAI  
YC13  
-78A16

**Report of the**

**Standing Senate Committee on**

**National Finance on**

# **THE ACCOMMODATION PROGRAM OF THE DEPARTMENT OF PUBLIC WORKS**

**Chairman**

**The Honourable Douglas D. Everett**

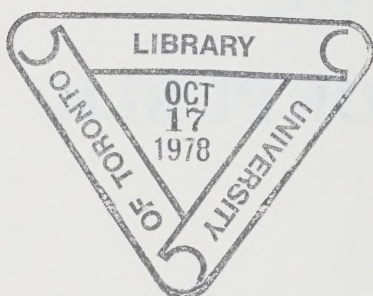
**Deputy Chairman**

**The Honourable Herbert O. Sparrow**

**Third Session**

**Thirtieth Parliament**

**September 1978**



Published under authority of the Senate by the Queen's Printer for Canada

Catalogue No. YC-13-303/1-01  
ISBN 0-660-10048-7

Canada. \$5.75  
Other countries: \$6.90

Available from  
The Canadian Government Publishing Centre  
Hull, Qué., Canada  
K1A 0S9

## **ORDER OF REFERENCE**

On Thursday, October 28th, 1976 the Senate resolved:

That the Standing Senate Committee on National Finance be authorized to examine and report upon the expenditures proposed by the Estimates laid before Parliament for the fiscal year ending the 31st March, 1977, tabled in the Senate on 19th February, 1976.





**MEMBERS OF THE**  
**STANDING SENATE COMMITTEE ON**  
**NATIONAL FINANCE**

*(as of 30 June 1978)*

**The Honourable Douglas D. Everett, Chairman**  
**The Honourable Herbert O. Sparrow, Deputy Chairman**  
**and**

**The Honourable Senators:**

**Barrow, A. Irvine**  
**Benidickson, W. M.**  
**Croll, David A.**  
**Desruisseaux, Paul**  
**\*Flynn, Jacques**  
**Giguere, Louis de G.**  
**Godfrey, J. M.**  
**Graham, B. Alasdair**  
**Grosart, Allister**  
**Hicks, Henry D.**

**Langlois, Leopold**  
**Manning, Ernest C.**  
**Molgat, Gildas**  
**Neiman, Joan**  
**\*Perrault, R.**  
**Robichaud, L. J.**  
**Smith, G. I.**  
**Steuart, D. G.**  
**Yuzyk, Paul**

**\*Ex officio Member**

**Note:** That the Honourable Senators Chesley W. Carter and J. P. Côté also served on the Committee during the Second Session of the Thirtieth Parliament,





## TABLE OF CONTENTS

Summary of Conclusions and Recommendations .....	xiii
Acknowledgements.....	xxvii
Introduction to the Report .....	xxix
 Chapter 1: Realty Management and Service: The Role of the Department of Public Works.....	3
Objectives of the Department .....	3
The Response to the Glassco Commission Recommendations About DPW .....	4
Other Circumstances and Events Affecting DPW .....	6
How the Demand for General Purpose and Single Purpose Accommodation is Met .....	8
 <b>PART I: THE CENTRAL AND PRIMARY PROVIDER OF ACCOMMODATION AND RELATED REAL PROPERTY SERVICE</b>	
 Chapter 2: A Common Service Agency?.....	13
Lack of Support for DPW's Mandate Proposals .....	13
Single Purpose and General Purpose Accommodation Redefined .....	14
Designation of Public Works as a Common Service Agency.....	15
 Chapter 3: Should Departments Pay for Space? The Concept of Revenue Dependency .....	17
Notational Display: An Alternative to Charging for Services .....	17
Charging for Services: Definition of Terms .....	19
The Concept of Charging for Services .....	19
Shadow Billing .....	20
Present Practice .....	20
Arguments in Favour of Charging for Public Works' Services .....	21
Arguments Against Charging for Services: Should Public Works Have a Monopoly? .....	22
Calculation of Rents, Fees and Charges: Direct Costs or Market Pricing? .....	23

	Should Public Works Become Revenue Dependent? .....	24
	Allocating Accommodation Costs to Programs .....	26
	Real Estate Taxes .....	27
	Other Costs .....	28
Chapter 4:	A Proposal for the Operation of Revenue Dependency in Public Works .....	29
	Crown-Owned General Purpose Accommodation .....	30
	New Facilities .....	30
	Existing Facilities .....	30
	Crown-Leased General Purpose Accommodation .....	31
	Other Services .....	31
	Financing Arrangements .....	32
Chapter 5:	Allocation and Control of Space—An Expanded Role for Public Works .....	33
	Vacancy Rate .....	33
	Standards for Office Accommodation: Basis of Entitlement .....	35
	Enforcing Adherence to Guidelines .....	36
	Monitoring Space Utilization: A Wider Role for Public Works? .....	38
	Client Departments' Views on a Monitoring Function for DPW .....	39
	The Role of DPW as Agent of Treasury Board .....	40
Chapter 6:	Communication, Confidence and Credibility: Improving the Relationship Between Public Works and Its Client Departments .....	43
	DPW Experience with a Single Client Contact .....	44
	Provincial Arrangements for Client Consultation .....	44
	Available Channels of Communication with Public Works .....	45
	Better Consultation Needed .....	45

## PART II: CANADA'S LARGEST CONSTRUCTION AND PROPERTY MANAGEMENT AGENCY

Chapter 7:	How the Department of Public Works is Organized to Fulfill Its Objectives .....	51
------------	---	----

Evolution of the Present Organization .....	51
The Present Organization of DPW .....	52
The Relationship of the Regional Offices to Headquarters .....	54
Delegation of Authority Within DPW's Organization .....	55
Fragmented Decision Making .....	56
Conclusion .....	56
<b>Chapter 8: Problems in Forecasting Demand for DPW Services .....</b>	<b>59</b>
Long Range Planning: The Departmental Planning & Co-ordination Branch.....	59
How DPW Collects Information about Client Requirements .....	60
How DPW Could Overcome Problems in Forecasting Demand for Services .....	61
A Role for Treasury Board? .....	62
<b>Chapter 9: How Public Works Meets the Demand for Accommodation: The Lease, Purchase, Build Options .....</b>	<b>67</b>
Defining the Requirement: Short Term or Front-end Planning .....	68
Is the Project Delivery System Necessary? .....	69
The Leasing Option .....	70
Current Leasing Activity .....	70
Terms and Conditions of Leases Taken by Public Works .....	72
Restrictions on Leasing Space.....	72
The Present Method of Leasing: Advertising for Proposals .....	73
Impact of the Tender Process on Leasing Costs .....	74
Alternatives to Tendering for Space .....	75
Should DPW Lease or Construct Required Accommodation? .....	77
The Lease-Purchase Option.....	79
What is Meant by Lease-Purchase? .....	79
Introduction of the Lease-Purchase Approach by Public Works .....	80
Why Public Works Used Lease-Purchase Agreements to Acquire Space.....	82



Use of Lease-Purchase Agreements Outside the Federal Government.....	84
Private Sector Views on the Advantages and Disadvantages of Lease-Purchase.....	85
Cost Comparisons Made by DPW Before Accepting Lease-Purchase Proposals .....	86
Identification of the Cost of the Option to Purchase .....	87
Conclusions on Future Commitments to Lease-Purchase Agreements.....	89
Precautions to be Taken in Negotiations for Future Lease-Purchase Agreements .....	90
The Department's Preferred Option: Crown-Owned Accommodation .....	91
Purchase of an Existing Building .....	92
The Crown Construction Process .....	93
Project Management .....	95
Should Private Sector Consultants be Hired as Project Managers?.....	97
Tendering and Construction .....	98
Construction Management Contracts: Phased or Sequential Tendering .....	99
Criticism of DPW's Use of Phased Construction .....	100
Specifications Used by DPW .....	102
Must Public Works Always Call for Tenders? .....	102
Is Crown Construction the Preferred Solution? .....	105
A Greater Flexibility for DPW .....	106
Chapter 10: Outside Consultants and How to Select Them .....	109
In-House Staff or Outside Consultants? .....	109
Use of Outside Consultants by the Private Sector and Other Governments .....	110
Application of a Policy of Privatization by Public Works ..	112
The Selection of Consultants.....	114
Proposals for Changes in Consultant Selection Procedure..	115
Consultant Fees .....	117
Selection of the Design and the Designer by Formal Competition.....	119

Criticism of Competitions .....	120
Smaller Regional Competitions .....	121
Composition of the Competition Jury.....	122
Chapter 11: Why Federal Buildings Cost More .....	125
Life-Cycle Costing .....	127
Additional Factors Which Increase the Cost of Public Works Buildings .....	128
Projecting the Federal Presence in Federal Buildings.....	128
The Development of the Major Multi-Purpose Government Complexes .....	131
Public Works Heritage Policy .....	133
Assessment of DPW Heritage Policy .....	135
Fine Art in Federal Buildings .....	137
Leasing Space in Public Buildings to Commercial Enterprises .....	140
Other Commercial Clients.....	141
Accessibility of Federal Buildings to the Handicapped .....	142
Chapter 12: Operation and Maintenance—The Continuing Administration of Accommodation .....	143
Fitting-up and Tenants Services .....	144
Routine Maintenance and Cleaning .....	145
Maintenance .....	146
Cleaning .....	146
Cyclical Redecorating .....	147
Informing Its Tenants .....	147
Maintenance of Single Purpose Accommodation .....	147
Parking Space .....	148
Operation and Maintenance under Revenue Dependency ..	148
Chapter 13: Public Works as a Leader in the Realty and Construction Industries.....	149
Government of Canada Master Construction Specification System (GMS) .....	150
Computer Aided Design Program.....	152
Energy Conservation and Metric Conversion .....	152
Construction Investment Information System.....	153
Conclusion .....	154

PART III: ADVISER AND ADMINISTRATOR: THE ASSIGNMENT OF  
PUBLIC WORKS IN THE MANAGEMENT OF FEDERAL LANDS

Chapter 14: The Federal Land Management Policy .....	159
New Policy on Federal Land Management .....	160
Treasury Board Advisory Committee on Federal Land Management (TBAC/FLM) .....	161
Area Screening Program .....	162
Organization of TBAC/FLM Activity .....	163
Acquisition by Expropriation .....	164
Acquisition by Purchase.....	164
Acquisition Activity by Other Departments .....	165
Acquisition Activity of the National Capital Commission ..	166
Disposal of Surplus Real Property Holdings .....	168
Disposal of General Purpose Land .....	169
Disposal of Single Purpose Land.....	169
Chapter 15: Central Real Property Inventory.....	171
Development of the C.R.P.I. ....	171
Uses of the C.R.P.I. ....	173
Non-Compliance with C.R.P.I. Directives.....	174
APPENDIX A .....	177
APPENDIX B .....	183
APPENDIX C .....	185
APPENDIX D .....	191



## SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

In recent years the Department of Public Works has re-organized its staff and refined its procedures in order to fulfill its mandate as a common service agency providing both accommodation and related real estate services to support federal public service activities. The recommendations of this report are directed toward the improvement of the way the department performs its assigned duties at present and toward securing wider recognition of its mandate not only by those departments and agencies which are clients of the Department of Public Works but also by the Treasury Board and the Privy Council Office.

### INTRODUCTION

The Public Works Act is out of date and does not reflect the present practices of DPW in providing federal government accommodation. The Act should be extensively amended to give clear direction to DPW about its responsibility to provide accommodation and real property services to federal government departments and agencies.

Amend  
Public Works  
Act—page xxxii

### PART 1:

#### THE CENTRAL AND PRIMARY PROVIDER OF ACCOMMODATION AND RELATED REAL PROPERTY SERVICE

##### *Chapter 2. A Common Service Agency?*

The Committee recommends that the terms ‘single purpose buildings’ and ‘general purpose buildings’ now in use in the Main Estimates and throughout the administration of the Accommodation Program be redefined. Single purpose should only apply to Crown-owned buildings for which a current market rental value for non-governmental use which relates to cost or replacement cost cannot readily be established regardless of their location in Canada. The term ‘general purpose’ should be applied to all other Crown-owned or leased facilities.

Redefine  
“single  
purpose” and  
“general  
purpose”  
buildings.—  
page 15

Ownership—  
page 15

The Committee recommends that all single purpose buildings should be owned by the user/occupant department and all general purpose accommodation should be controlled by the Department of Public Works.

Designate  
DPW as  
common  
service  
agency—  
page 16

The Committee recommends that amendments be made to the Public Works Act and other acts as required to designate the Department of Public Works as a common service agency, its activities to be directed toward providing the departments and agencies of the Government of Canada with accommodation and related real property services required to support the programs of those departments and agencies. An exception should be made for properties owned or leased by the Government of Canada outside Canada; the Department of External Affairs should continue to manage all these properties.

DPW  
responsible  
for all design  
& construction—  
page 16

The Committee recommends that the Department of Public Works should be responsible for the design and construction of all federal accommodation, whether it is single purpose or general purpose accommodation.

### *Chapter 3. Should Departments Pay for Space? The Concept of Revenue Dependency*

Notational  
system  
unsatisfactory—  
page 19

The Committee considers the use of a notational system to display the costs of accommodation in the estimates of each federal department and agency to be a weak and unsatisfactory solution to the problem of accountability for accommodation costs.

DPW to rent  
its general  
purpose  
space—  
page 24

The Committee recommends that DPW charge user departments commercially equivalent market rents for all general purpose accommodation. In the case of Crown-owned general purpose accommodation the market rents would be established by independent appraisal.

Review of  
rent by  
Treasury  
Board—  
page 24

It is important that a system be in place to ensure that DPW's monopoly position would not lead to inflated rentals. There will be no true financial discipline on Public Works and no adequate protection for client departments unless there is an arrangement where a client department can request an independent appraisal. The Committee recommends that any department which contests a rental charged by DPW for Crown-owned general purpose accommodation should be entitled to seek a review by Treasury Board which would take into consideration an independent appraisal based on rentals for comparable private sector buildings.

The Committee has reached the conclusion that revenue dependency is feasible and desirable and recommends that the Accommodation Program of the Department of Public Works be operated on this principle.

Recommends revenue dependency—page 26

The aim of charging client departments for space is to heighten cost consciousness. The Committee recommends as a means for achieving this objective that departments be directed to allocate accommodation costs to specific programs and activities.

Allocation of Accommodation costs—page 26

The Committee concluded that responsibility for paying grants in lieu of taxes should be transferred to the Department of Public Works.

Grants in lieu of taxes—page 28

#### *Chapter 4. A Proposal for the Operation of Revenue Dependency in Public Works*

The Committee recommends the establishment of a DPW Building Fund. The Building Fund would operate on an accrual system of accounting and would capitalize its Crown-owned general purpose accommodation. However, its net profits would be returned to the Consolidated Revenue Fund annually and its major capital expenditures would be provided by appropriation. The details of such expenditures would accordingly be displayed in the DPW Estimates and be subject to direct parliamentary control. Through the Building Fund DPW would provide three main services to the federal government:

DPW Building Fund—page 29

(1) it would acquire all Crown-owned general purpose accommodation and lease it to other government departments;

(2) it would lease general purpose accommodation from others and sub-lease it to other government departments;

(3) it would provide a variety of services to other government departments including, amongst others, services related to the design and construction of single purpose accommodation.

#### *Chapter 5. Allocation and Control of Space—An Expanded Role for Public Works*

The space control standard should be recast to reflect reasonable space entitlement for actual functions carried out. The Committee supports the recommendation previously made by the Auditor General that the Treasury Board should promulgate revised guidelines as soon as possible “including instructions based on functional requirements and distinguishing between working, ancillary service and excluded space”.

Space guidelines based on function—page 36

Annual  
self-audit—  
page 37

The Committee recommends that the annual report on space utilization take the form of an annual self-audit to ensure a comprehensive review of the use of general purpose accommodation by each department as it relates to the space standards. Where a department is occupying space in excess of the guidelines it should be required to notify DPW promptly.

Space table in  
Main  
Estimates—  
page 37

The Committee recommends that the Main Estimates include a table showing the total square footage of general purpose accommodation per man-year which each department is utilizing with a comparison going back at least three years.

DPW as  
agent of  
Treasury  
Board—  
page 41

The Committee recommends that the Department of Public Works be assigned a clearly defined role as the agent of the Treasury Board in the development of functional standards of accommodation. In this capacity as agent, Public Works should be required to certify to the Treasury Board that departments are entitled to space requested in accordance with those standards or to explain why it has permitted the standards to be exceeded, to allocate general purpose space to client departments on the basis of them, and to monitor the actual use of space thus occupied by departments and agencies to ensure its continued effective utilization.

#### *Chapter 6. Communication, Confidence and Credibility: Improving the Relationship Between Public Works and Its Client Departments*

Responsibility  
for assisting  
client  
depart-  
ments—  
page 47

When DPW becomes revenue dependent and the sole source for accommodation and related real property services it will have to improve its consultation and cooperation with the client departments. Therefore the Committee recommends that DPW officials in the Accommodation Facilities Development and the Property Administration directorates both at headquarters and in the regions should have impressed upon them their personal responsibility for assisting the client departments which they in a sense represent. The Committee further recommends that these directorates be given the authority to act effectively on behalf of their clients and that DPW continue the practice of assigning officers of the directorates responsibility for individual departments.

Authority to  
act on client's  
behalf—  
page 47



## PART II:

### CANADA'S LARGEST CONSTRUCTION AND PROPERTY MANAGEMENT AGENCY

#### *Chapter 7. How the Department of Public Works is Organized to Fulfill Its Objectives*

The Committee recommends that in preparation for the introduction of revenue dependency DPW re-examine its organization in order to make it less complex. The objectives of such a reorganization should be to preserve the present decentralization of decision-making while reducing the number of levels of authority so that the present complicated approvals process is simplified.

Re-examine  
DPW  
organiza-  
tion—  
page 57

#### *Chapter 8. Problems in Forecasting Demand for DPW Services*

The Committee recommends that DPW assign planning officers to maintain continuous contact with long-range planning units in each department and agency in order to gain advance knowledge of possible new accommodation requirements. Treasury Board should also issue a directive to each department and agency making it mandatory for them to provide the information on their plans to the planning officers so that DPW can more accurately determine their accommodation requirements.

Assign  
planning  
officers to  
clients—  
page 62

The Committee recommends that the Treasury Board provide the Department of Public Works with an annual assessment of future demand for accommodation based on a three-year forecast submitted by departments and agencies. Such forecasts should include projections of future man-year requirements for general purpose accommodation and for proposed new or extended programs which would require single purpose accommodation.

Treasury  
Board to  
supply  
forecasts—  
page 63

#### *Chapter 9. How Public Works Meets the Demand for Accommo- dation: The Lease, Purchase, Build Options*

The Committee recommends that DPW be formally designated as the federal government realty developer and that DPW emphasize the importance of its realty development function in its organization. To ensure the effective functioning of the new Project Delivery System, it is important that Project Development Officers be given the necessary authority to move projects efficiently through the planning stages of the System and their job descriptions specify that these positions be filled by highly competent persons.

DPW as  
Federal Gov't  
Realty  
Developer—  
page 70

Competitive  
proposals  
over 20,000  
sq. ft.—  
page 77

Treasury  
Board  
approval of  
leases over  
\$250,000—  
page 77

**The Committee recommends that on condition it advertises its space requirements, the Department of Public Works be authorized to enter into leases in existing or proposed buildings for space up to 20,000 square feet without having to seek competitive proposals within these limits. The Committee further recommends that the Department of Public Works be authorized to enter into leases where the annual rate does not exceed \$250,000 without the approval of the Treasury Board. Beyond these revised limits competitive proposals should be sought but the least competitive bidders should be released as soon as Public Works evaluation makes this fact clear.**

Principles for  
renting—  
page 78

**There are certain principles which the Committee recommends that the Department follow when concluding rental arrangements for general purpose accommodation:**

**a) In the private sector facilities are often obtained on long term leases either because of a shortage of corporate capital or because corporate capital can bring a higher return when invested elsewhere in the business. The federal government is the prime rated borrower in the economy and can borrow long term at rates well below the private sector. It will therefore generally not be to DPW's advantage to enter into long term leases.**

**b) However the real estate market is very sensitive to supply and demand. There can be periods when there is a substantial oversupply of space (as is the case now in many cities) and space may be acquired at very advantageous rates with limited escalation clauses.**

**c) Apart from unusual situations, DPW will generally be wise to limit leases to short or medium terms.**

**d) DPW should always obtain options to renew the lease as far out as possible provided the rent for the initial term is not unduly raised to secure the options. This gives DPW the advantage of a medium term commitment with a long term possibility.**

**e) Short term leases can be expensive if DPW has to amortize the cost of substantial tenant's improvements.**

**f) Leasing is particularly attractive where smaller footages are required, where locations are diversified or where the term of use is relatively short or uncertain.**

Given the circumstances of that time—the intense demand for space by the Federal Government, the lack of capital funds to permit Crown construction and the legitimate desires to obtain firm costs in a highly inflationary environment and to control the architectural development of the National Capital Region—it is understandable that DPW entered into the four Ottawa-Hull lease-purchase agreements. However DPW, with the approval of Treasury Board, failed to observe precautions taken as a regular course in all other projects for the acquisition of space. The Committee's inquiry into the details brought out evidence that these agreements have committed DPW to pay rates for the space involved well beyond the prevailing private sector level.

Higher rates in 4 major lease-purchase agreements—page 90

The Committee recommends that Public Works consider lease-purchase agreements for the provision of accommodation in future only on condition that

Conditions for lease-purchase—page 91

- a) the rental rate specified in the lease-purchase agreement is itself competitive with the general market rate for straight leases;
- b) the cost of the option is entirely contained in the amount to be paid upon the exercise of the option;
- c) the option to purchase may be exercised at stages prior to the end of the agreement and during the useful life of the leased premises; and
- d) a way be found to permit the development of the property concerned at or near government interest rates, provided that the lease rate reflects this saving.

The Committee concludes that the Project Delivery System now in force in the Department of Public Works will significantly improve the process of Crown construction. Individual DPW project managers appointed to oversee each construction project through the Project Delivery System should be accorded full support in their leadership role from senior departmental levels of authority.

Support for DPW project managers—page 97

The Committee supports the position taken by the Department of Public Works that on Crown construction projects for which Public Works must take full responsibility, a departmental employee must occupy the position of project manager. Private sector consultants should be hired as subordinate design and construction managers only.

DPW employees to be project managers—page 98

The Committee recommends that Public Works should continue to use phased construction when time and cost circumstances indicate that this approach will permit the construction of required

Use phased construction if time & cost permit—page 101

space to be completed at lower cost than would be possible if the customary single firm price contract was used.

Specifications  
in tender  
documents—  
page 102

The Committee recommends that DPW review its policy regarding specifications used in its tender documents and in particular give consideration to the addition of financial incentive clauses in its construction contracts to encourage successful bidders to find acceptable lower cost alternative materials and thereby share in any savings realized in the total cost of the construction.

Authorized  
lists of  
contractors—  
page 104

The Committee recommends that the Treasury Board amend the existing Government Contract Regulations to permit the selection of building contractors from authorized lists of companies whose qualifications to undertake the work have previously been established by reference to previous comparable experience in construction projects of similar scope. This method of selection would be used where projects could be more efficiently constructed from performance specifications rather than detailed specifications.

Use of Crown  
construction—  
page 106

The Committee concluded that Crown construction is justified for single purpose accommodation required for special federal services and activities. General purpose accommodation may be more economically acquired by lease or purchase of an existing building and the Committee recommends that these two alternatives be carefully assessed in every instance when additional accommodation is required. Crown construction should be considered where there is a long-term need for large areas of space or where the federal presence is desirable. Where long-term government use cannot be guaranteed, Crown constructed general purpose accommodation should be designed so that it could be disposed of for private sector use if the federal government requirement ends while the building still has useful life left.

#### *Chapter 10. Outside Consultants and How to Select Them*

Reduce  
in-house  
design  
work—page  
page 114

The Committee recommends that, in line with declared government policy, Public Works reduce further the share of construction design work carried out by the staff of the Department. In the interest of economy, efficiency and the maintenance of in-house expertise for project management DPW should have enough in-house design staff to handle the minimum amount of small and medium projects that can be anticipated will take place each year. Any work in excess of that minimum amount and most projects over \$1 million should be turned over to outside consultants.

Method of  
selection for  
architects &  
engineers—  
page 117

The Committee recommends the following method of selecting architectural and engineering consultants for the design of federal government construction projects. DPW would publicly announce



its proposed construction as well as major alteration and repair projects. Interested consultants would reply by submitting their qualifications, experience and capabilities. DPW would select three to five firms each of whom would be asked to supply their conceptual design approach and their estimate of the cost of the project. A DPW selection committee would rank firms on the basis of their conceptual designs as well as their qualifications, experience and capabilities. The top-ranking firm would be interviewed in order to arrive at an agreement on the work to be done and the fee to be charged. If agreement could not be reached the other firms would be interviewed in order of rank until agreement was reached. The work of the DPW selection committee would be subject to review by a public advisory committee.

The Committee recommends that the scale of fees for architectural/engineering services be amended with fees to be fixed on the basis of the professional consultant's and DPW's estimate of the cost of the job. However, the consultant should be entitled to a premium if the design prepared by him resulted in substantially reduced construction costs.

Scale of fees—  
page 118

If design consultants want DPW to reduce the size of its in-house professional staff and increasingly to use outside consultants, they will have to look realistically at their fee scales and be prepared to recommend to their membership acceptance of changes which would provide an incentive to the consultant to reduce overall cost of a project.

Role of private sector in altering fees—  
page 119

The methods of selecting professional consultants to work on Public Works projects should be equitable. The Committee therefore recommends the selective use of two-stage national competitions by Public Works for the design of buildings of unusual national importance, the final selection to be made by a jury competent to assess the cost-effectiveness of competing designs as well as their architectural merit and appropriateness.

Two-stage competitions for important buildings—  
page 123

## ***Chapter 11. Why Federal Buildings Cost More***

Only under revenue dependency will DPW be faced with the same kind of financial discipline which constrains private developers, a discipline which should lead to the construction of less costly buildings.

Less costly buildings under revenue dependency—  
page 127

The Committee agrees that life-cycle costs must be determined and used as a basis for decision-making before construction of Crown-owned buildings commences. However it must be clearly demonstrated that any additional construction costs proposed on the grounds that they produce savings in life-cycle costs will

Life-cycle costs as basis of decision-making—  
page 128



actually avoid the need for expensive renovations in the future. Otherwise there are no savings to be gained over time.

Calculate  
costs of  
prestige  
factor—  
page 131

The Committee recommends that when approval is sought from the Treasury Board to proceed with the construction of a prestige public building full information about the additional costs attributable to this factor should be identified. Under revenue dependency the necessary funds beyond those required for standard accommodation should be provided through special appropriation.

Re-assess  
large federal  
multi-purpose  
complexes—  
page 132

The Committee recommends that all proposals for large federal multi-purpose complexes in major urban centres which are still in the planning stages be carefully re-assessed. However multi-purpose complexes in smaller urban centres, whose cores are not highly developed, and which do not suffer problems of congestion, could bring benefits.

Re-define  
term heritage  
building—  
page 137

The present definition of a Public Works heritage building is inadequate for administrative purposes. The Committee recommends that only buildings which have true historical or architectural merit should be preserved. Buildings of marginal historical or architectural worth should not be retained and restored for contemporary use unless the costs involved (including life cycle costs) can be demonstrated to be competitive with new construction.

Fine Art  
Policy—  
page 139

The Committee recommends that the present policy of providing an automatic one per cent of construction costs for fine art objects for each new public building should be discontinued. In its place there should be an annual appropriation of an amount roughly comparable to one per cent of the capital budget from which fine art may be purchased for buildings where prestige and aesthetic considerations justify. Responsibility for making decisions on the use of the funds should rest with a renamed National Advisory Committee, responsible for the selection of art objects with the Department of Public Works having veto powers.

Approves  
commercial  
letting—  
page 141

Seek tenants  
for surplus  
office space—  
page 141

The Committee approves the policy of letting space in general purpose federal buildings to commercial clients for retail operations. It recommends that Public Works seek tenants for office space in Public buildings surplus to current needs. This activity should be carefully limited to the use of unneeded space and should not become a business.

Accessibility  
for hand-  
icapped—  
page 142

The Committee agrees that federal buildings should in principle be accessible to the handicapped.

*Chapter 12. Operation and Maintenance—The Continuing Administration of Accommodation*

The Committee recommends that client departments occupying general purpose Crown-owned accommodation be authorized to arrange for minor tenants services for which they would in any case be paying, to be undertaken by private contractors subject to the agreement of the Department of Public Works as owner.

Client depts  
to arrange for  
minor tenant  
services—  
page 145

The Committee recommends that in applying the federal government's privatization policy to its operations and maintenance, Public Works retain in-house capability where it costs less and is more efficient than contracting for the services with the private sector.

Privatization  
policy—  
page 146

The Committee recommends that the occupying department should be a participant in the inspection team rating contract cleaning companies for continued employment.

Client  
department  
as part of  
inspection  
team—page 147

The Committee recommends that in a revenue dependent situation a formal lease outlining all terms and conditions should be entered into between DPW and the client department. In any event DPW should always provide a clear summary of the maintenance and other services to which the client department is entitled.

Formal lease  
under revenue  
dependency—  
page 147

*Chapter 13. Public Works as a Leader in the Realty and Construction Industries*

The Committee concludes that the demonstrated benefits of the Government of Canada Master Construction Specification System (GMS) in the public sector justify its compulsory use by DPW and consultants retained by the federal government. The Committee commends the active involvement of Construction Specifications Canada, believing that the private sector will not find a National Master Specification adapted from the GMS to be useful unless it participates directly in its development and contributes continuously to its updating. Only if the GMS is regularly updated to take account of innovation in the field of construction will it serve the purpose for which it is intended.

Compulsory  
use of  
GMS—  
page 151

The Computer Aided Design program is a worthwhile endeavour if at reasonable cost, it can realize DPW's goal of reducing the life-cycle cost of new construction. The Committee recommends that further funds be committed to the Computer Aided Design project only if the department concludes that the cost relates to the benefits to be obtained and if these benefits are reasonably within reach.

Re-assess  
benefits of  
Computer  
Aided  
Design—  
page 152

Discontinue  
Construction  
Investment  
Information  
System—  
page 154

**The Construction Investment Information System is of doubtful value as a source of information to the construction industry and as a counter-cyclical economic tool. The Committee recommends that further work on the development of the Construction Investment Information System be discontinued.**

Involve  
private sector  
& universities  
in experimen-  
tal work—  
page 155  
Assess  
research &  
development  
projects—  
page 155

**The Committee recommends that more emphasis be put on direct involvement of the private sector and universities in the Department's experimental work.**

**The Committee recommends that research and development projects be continually assessed and that those projects which do not reach their goals within reasonable time and expenditure be dropped.**

### **PART III:**

## **ADVISER AND ADMINISTRATOR: THE ASSIGNMENT OF PUBLIC WORKS IN THE MANAGEMENT OF FEDERAL LANDS**

### ***Chapter 14. The Federal Land Management Policy***

Terminate  
Area  
Screening  
Program—  
page 163  
Land  
Management  
Policy—  
page 163

**The Committee recommends that the Area Screening Program be terminated.**

**The Committee recommends that the Treasury Board Advisory Committee on Federal Land Management (TBAC/FLM) be directed to develop guidelines for the implementation of the land management policy that are clear and concise. In implementing the Federal Land Management Policy the efficient use of federal property should be given clear priority over the other objectives.**

Acquisition of  
property—  
page 168

**The Committee recommends that all property required in Canada by federal government departments or agencies be acquired solely by DPW except:**

- a) property acquired by the National Capital Commission to carry out its statutory responsibilities in the National Capital Region;**
- b) property acquired by the Parks Canada Directorate of the Department of Indian and Northern Affairs under the National Parks Act and the National Historic Sites and Monuments Act;**
- c) property acquired by the Department of National Defence for defence-related projects.**

<p>The Committee recommends that the decision to retain the ownership of surplus federal properties should be reversed.</p> <p>The Committee recommends that the TBAC/FLM should undertake a regular review of all single purpose properties to determine if there is under-utilization and whether the property should be declared surplus and disposed of.</p>	<p>Reverse decision to retain surplus property—page 169</p> <p>Review of single purpose properties—page 170</p>
--	---

**Chapter 15. Central Real Property Inventory**

<p>Public Works should continue to assist reporting agencies in discovering how to use the Central Real Property Inventory more effectively. Now that most departments and agencies are reporting their holdings on a regular basis, it is time for Public Works to take more initiative in showing the more sophisticated uses of the inventory.</p>	<p>Uses of inventory—page 173</p>
---	-----------------------------------

<p>The Committee concludes that it is reasonable for External Affairs to maintain the inventory of all government-owned and leased property abroad.</p>	<p>Inventory of overseas property—page 174</p>
---	--

<p>Treasury Board should establish standards for the inventory of Crown-owned and leased property outside Canada maintained by the Department of External Affairs.</p>	<p>Standards for inventory outside Canada—page 174</p>
--	--

<p>Crown corporations can derive benefit from compliance with the Central Real Property Inventory regulations. The Committee accordingly recommends that the Treasury Board draw them to the attention of the Ministers responsible for these organizations. Both the appropriate Minister and the Treasury Board should review any reasons advanced for non-compliance.</p>	<p>Property of Crown corporations—page 175</p>
--	--





## ACKNOWLEDGEMENTS

The Committee wishes to acknowledge its gratitude for the assistance given in the examination of the Accommodation Program to the Minister of Public Works, the Honourable Judd Buchanan and the officials of his Department; to the witnesses from other federal government departments, provincial governments and the private sector, many of whom came a considerable distance at their own expense to assist the Committee; and to the staff of the Committee—Mr. J. H. M. Cocks, the Clerk of the Committee; Mrs. Barbara Plant Reynolds of the Research Branch of the Library of Parliament; Mr. P. C. Dobell and Mrs. Helen Small of the Parliamentary Centre who acted as advisers; and Mrs. Liz Levere and Miss Elizabeth Macaulay who typed the manuscript.



## INTRODUCTION TO THE REPORT

With the publication of this report on the Accommodation Program of the Department of Public Works (DPW), the Standing Senate Committee on National Finance concludes its third major evaluation of a single government program. Following the publication of its report about economic stabilization policy in Canada, *Growth, Employment and Price Stability* in 1971, in-depth inquiries were undertaken into Information Canada (1974) and Canada Manpower (1976). The Committee has already begun its fourth study—the programs and policies of the Department of Regional Economic Expansion.

The Committee has long had a responsibility to review on behalf of the Senate the government's spending intentions as they are put before Parliament annually in the Main and Supplementary Estimates. These spending intentions are then authorized by Parliament in the Appropriation Acts. But the degree to which Parliament can effectively scrutinize the Estimates is limited. Indeed, the Auditor General in his 1976 Report stated that effective parliamentary control of the public purse had been all but lost. A Royal Commission on Financial Management and Accountability has been set up to look, *inter alia*, at this broad question.

It was out of concern for this situation that the Committee decided in 1973 to institute on a year round basis extensive in-depth examinations of specific programs or departments—one at a time—in an attempt to achieve a more effective parliamentary scrutiny of departmental obligations and the means of fulfilling them. Each report incorporates three distinct themes—a description of the organization put in place to carry out the objectives of the program; the Committee's assessment of the strengths and weaknesses of the program; and the Committee's conclusions and recommendations for improvement. Ministers and departmental officials have told the Committee they welcome the opportunity which this new parliamentary approach has provided and their cooperation has confirmed this welcoming response.

The quality of the Committee's examination derives in part from its practice of inviting knowledgeable outsiders to appear before the Committee. They can bring other perspectives to bear on the program under review and assist the Committee members to assess its effectiveness and decide on recommendations for improvement.

The Committee has introduced another innovation to ensure that its reports are carefully considered. Some months after the publication of a report, the Committee invites the responsible Minister to comment in a public hearing

on his department's reaction to the conclusions and recommendations in the report. This follow-up procedure was successfully begun after the examination of the Manpower Division. The Minister of Manpower and Immigration appeared before the Committee on March 15, 1977. He told the Committee that action has been or would be taken by his department on 52 of the 56 recommendations in the report on Canada Manpower. The Department's detailed response and the Minister's statement on it were tabled in the Senate on March 16, 1977 and appear as an Appendix to the official report for that day. The Committee will invite the Minister of Public Works to make a similar response later this year.

A commentary on this innovation subsequently appeared in *The Parliamentarian*, the journal of the Parliaments of the Commonwealth, where it was cited as a "noteworthy parliamentary development." The commentator concluded:

This degree of executive-legislative cooperation is rather unusual in Canada and the Minister and the committee not only helped to complete the public record on the question of manpower but also set an example to other committees and Ministers on how the two branches could work together for the public interest.<sup>1</sup>

### **The Range and Scope of this Examination**

The Committee's interest in the Department of Public Works was originally aroused by a statement of its Minister that his department was responsible for the management of "the largest realty operation in Canada and one of the largest in the world." He suggested that a more extended examination of his Department than the House of Commons committee system now allows would be desirable.

I do think one of the tasks that face any government department is to have its work, not only done, but also explained to the public who are entitled to a justification for the moneys expended on their behalf and there is not the opportunity even with attempts through press releases and devices such as this to explain and to get understood...we have the ability to respond, a willingness to respond...<sup>2</sup>

While the Department of Public Works still has responsibility for 'public works' in the traditional sense—design and construction of wharves, bridges and highways and dredging harbours—its primary task is to provide the accommodation required by other departments and agencies to carry out their responsibilities. Expenditures for this activity absorbed 81 per cent of the total resources of the department at an estimated cost for 1977-78 of \$662.8 million, making the Accommodation Program the sixth largest 'Major Budgetary Item' of federal expenditure. The Committee directed its examination to the Accommodation Program and to the related Land Management and Development Program and to the administrative, professional and technical services of the department which support them.

<sup>1</sup> "Parliamentary Reports," *The Parliamentarian*, Vol. LVIII, No. 3, July 1977, p. 195

<sup>2</sup> Canada, House of Commons Standing Committee on Natural Resources and Public Works, *Minutes of Proceedings and Evidence*, 63, April 18, 1976, p. 7

Between November 1976 and June 1977, the Committee held 19 hearings on the Accommodation Program of the Department during which 58 individual witnesses were questioned. In addition to those from Public Works, federal officials from the Treasury Board, the National Capital Commission, and three client departments were also questioned. To provide a basis of comparison, meetings were held with persons now or formerly responsible for accommodation services in the governments of Ontario, British Columbia, and the United States, as well as with the heads of comparable services of two of the largest private corporations in Canada. The views of practising consulting engineers, architects, developers and active heritage groups were represented by their professional associations. A sub-committee visited the Western Region office of Public Works in Edmonton to hold informal discussions with departmental officials and with local representatives of five client departments. Senior officials of the department in the United Kingdom which corresponds to DPW, the Properties Services Agency, were also interviewed. Staff of the Committee visited other regional offices and surveyed twenty-five federal client departments in total. Opinions on the range of issues discussed in hearings were also solicited from similar groups and organizations by letter and over one hundred written submissions were returned.

### **Statutory Responsibility of DPW**

The Department of Public Works was constituted in 1867 from the organization already existing to perform similar duties for the former Province of Canada. Some of its professional staff were located in Ottawa before Confederation in connection with the construction of the impressive parliament building which it was agreed would house the federal Government of Canada. The Department operates under the authority of the *Public Works Act R.S.C. 1970 c. P-38* which has changed very little since 1867. Only ten amendments have been made since 1906, the last in 1976-77. Some merely alter redundant wording, others alter arrangements for tenders and letting of contracts. Officials such as the Chief Architect and the Chief Engineer are still cited in the current act. Although they may have counterparts carrying out similar duties in the current organization, no one now carries these titles.

The Department's role as a common service agency responsible for the provision of accommodation and the related services of realty management stems from Section 9(1), Powers of the Minister, which describes the matters under his control. These include the "management, charge and direction" of specifically enumerated properties—dams, harbour facilities, roads and bridges, telegraph lines and "the public buildings". The Minister also is responsible, under Section 9(1)(f) for providing services which include "the heating, maintenance and keeping in repair of the Government buildings and any alteration from time to time requisite therein."

The Act does not include any reference to Public Works as a common service agency, nor has exclusive status in the management of real property



been given by section 9 to Public Works. Section 10 of the Act authorizes an important exception which has never been amended. It states:

Nothing in section 9 shall be deemed to confer upon the Minister the management, charge or direction of such public works as are...(c) placed, by or under the authority of this Act or any other Act of the Parliament of Canada, under the control and management of any other minister or department...

The Minister's powers over Crown Lands were first spelled out in the *Public Works Act in 1966-67* (S.C. 1966-67 c. 25 s. 21), but again an exception was stated:

Section 9 (2) The Minister has the control, management and administration of all lands belonging to Her Majesty in right of Canada except lands specially under the control, management or administration of any other Minister, department branch or agency of the Government of Canada.

These exceptions have permitted other departments of government to develop real property functions in support of the policy objectives authorized in their own departmental acts. In fact they had done so to an extent which the Royal Commission on Government Organization (the Glassco Commission) found disturbing. In 1962 the Commission reported that Public Works was carrying out only forty per cent of new construction and controlled "only a fraction of the floor space in existing buildings."<sup>3</sup>

As a result of new policies adopted conforming with the Commission's recommendations, the Department of Public Works now exerts control over a significant proportion of floor space and is undertaking increased construction for other government departments. Even so Mr. G. B. Williams the Deputy Minister told the Committee in his opening statement that "the problems arising from the fragmentation in the management of federal real property resulting from this dispersal among several departments have not yet been solved." (1:12)<sup>4</sup>

By the end of its examination the Committee had received ample evidence to suggest that strengthening the Department's statutory and actual authority as a common service agency would be an important contribution to the resolution of these problems.

**The Public Works Act is out of date and does not reflect the present practices of DPW in providing federal government accommodation. The Act should be extensively amended to give clear direction to DPW about its responsibility to provide accommodation and real property services to federal government departments and agencies.**

---

<sup>3</sup> Canada, *Report of the Royal Commission on Government Organization*, Vol. 2, "Supporting Services for Government", Ottawa, 1962, p. 26

<sup>4</sup> This and similar subsequent notations in the text of the report refer to the issue and page number of the Proceedings of the Standing Senate Committee on National Finance during the Second Session of the 30th Parliament 1976-77

## **The Shape of the Report**

Chapter 1 is an introductory chapter to this report. It describes the action taken by the Department of Public Works during the past fifteen years to fulfill a service role in real property management against the background of external factors such as the growth of the public service and the government's policy decision to decentralize some operating units to areas of high unemployment in Canada and to relocate several federal departments in Hull.

The Committee's recommendations for fundamental changes in the financial organization and operation of the department follow in Part I. These flow from the Committee's firm conviction that Public Works should be the primary provider of accommodation and related real property services for the federal government. This mandate has not yet been recognized in any clear statutory provision, nor has it been consistently fostered by the central agencies—the Treasury Board and the Privy Council Office. Individual chapters consider the change in the formal designation of the Department of Public Works, and how this change will affect the department and its relationships with its client departments and with the Treasury Board. These relationships are discussed in the context of two important proposals—to assign to DPW the responsibility to monitor the use of space and to charge client departments rent so that Public Works may become a revenue dependent agency.

Part II reviews the on-going activities and the organization of the department. The options open to Public Works to meet accommodation requirements—lease, lease-purchase or design and construct—and the implications of alternative solutions are examined.

Finally, the management of federal lands is an integral part of the management of real property. Public Works has been assigned a special role in this area. It must also maintain the Central Real Property Inventory. The Committee's review of the administration of the federal land management policy by the Public Works is considered in Part III.



TABLE 1  
COMPARATIVE SUMMARY OF FUNDS ADMINISTERED BY PUBLIC WORKS, 1968/69 - 1978/79  
DPW EXPENDITURES/REVENUES BY PROGRAM (2)  
(\$000)

Program	1968/69	1969/70	1970/71	1971/72	Actual				Forecast		Main Est. 1978/79
					1972/73	1973/74	1974/75	1975/76	1976/77	1977/78	
Administration	10,513	10,766	12,095	13,640	14,845	17,606	22,604	24,832	27,367	32,302	35,621
Professional & Technical Services	18,048	13,911	13,535	15,260	17,442	20,540	25,197	31,475	35,567	42,464	42,536
Accommodation — Operating	102,709	111,069	129,234	152,264	165,845	212,909	267,486	302,742	362,945	411,971	460,941
— Revenues	1,919	2,992	2,396	7,330	15,078	29,553	41,845	49,864	58,985	58,608	56,236
Accommodation — Capital	71,754	83,034	91,596	113,270	140,532	200,697	208,714	243,070	235,868	292,200	248,530
Marine Operating & Subsidy	9,155	9,913	11,585	12,532	11,429	13,270	12,412	15,767	19,810	34,366	25,307
Marine Capital	22,958	21,346	23,062	21,904	16,879	15,534	10,300	8,712	8,855	18,580	32,172
Transportation & Other Engineering	—	—	—	—	—	—	—	—	—	—	—
— Op. (net) (3)	8,903	6,813	8,666	8,700	8,765	10,032	10,680	14,512	14,649	16,276	19,116
Transportation & Other Engineering	—	—	—	—	—	—	—	—	—	—	—
— Capital (3)	7,621	6,139	3,708	4,178	7,309	8,701	8,278	10,899	21,719	16,534	19,730
— Trans Canada Highway Subsidy (3)	37,312	26,774	39,573	2,338	—	—	—	—	—	—	—
Land Management & Development — Op.	—	—	—	—	—	—	—	—	—	—	—
— Gross Exp. (4)	—	—	—	—	—	—	—	—	—	—	—
— Revenues (4)	—	—	—	—	—	—	—	5,491	6,606	8,231	10,327
Land Management & Development	—	—	—	—	—	—	—	2,444	4,154	—	—
— Capital (4)	—	—	—	—	—	—	—	—	—	—	—
Land Management & Development — Grant (4)	—	—	—	—	—	—	—	17,716	7,584	13,000	5,785
— Capital (4)	—	—	—	—	—	—	—	—	5,000	—	—
Total (net) (1) (4)	287,054	286,773	330,658	336,756	367,968	469,736	523,826	622,908	682,831	827,316	843,829

#### NOTES

1. Included in above totals are Statutory Items relating to Court Awards and Refunds of Previous Years' Credits. These amounts identified by vote are:

#### 2. Sources

1968/69 — Main Estimates 1970/71 } — As current program structure came into effect April 1, 1970, these expenditures have been reconstructed to relate to the new  
1969/70 — Public Accounts 1970/71 } program structure.  
1970/71 — 1976/77 Public Accounts (Statement of Appropriations and Expenditures)  
1977/78 — Approved budget including Supps A & B but excluding SARA  
1978/79 — Main Estimates 1978/79

3. Transportation and Other Engineering Program did not have separate capital vote in 1970/71; however figures shown represent split between Operating and Capital.

4. Land Management and Development Program established April 1, 1975. Revenues credited to vote for 1975/76 and 1976/77 but to C.R.F. thereafter. 1976/77 Grant to Regional Municipality of Niagara re Welland Canal Bridge. Separate capital vote not established for 1977/78; however figures shown represent split between Operating and Capital.

Totals for Loans and DPW/WCA are not included.



TABLE 2  
ACCOMMODATION PROGRAM — EXPENDITURES/REVENUES  
1976/77  
(in dollars)

Office	OPERATIONS					Contributions to Super-annuation Accounts	CAPITAL			Total Capital & Operations
	Salaries & Other Pay-List Items	Repairs	Rents	Utilities & Materials & Supplies	Other	Total	Construc-tion & Improve-ments	Equipment	Other	Total
Atlantic	12,751,528	3,520,888	10,532,525	7,570,528	3,626,057	38,001,526	7,113,373	1,399,932	1,944,254	10,457,559
Quebec	9,376,070	6,985,633	24,696,350	7,363,382	4,527,596	52,949,031	55,688,056	755,508	15,293,347	71,736,911
Capital	23,827,682	13,307,607	63,128,331	25,106,788	13,479,817	138,850,225	67,566,369	1,848,162	8,694,546	78,109,077
Ontario	11,283,273	5,410,769	21,350,147	9,016,339	5,773,758	52,834,286	23,462,602	5,639,300	5,677,525	34,779,426
Western	8,003,429	3,533,998	17,592,404	8,627,722	3,933,950	41,691,503	18,731,725	374,420	2,266,602	21,372,747
Pacific	4,795,549	1,865,937	14,094,594	2,814,095	2,232,063	25,802,238	12,593,535	313,504	1,250,226	14,157,265
H.Q.	2,438,989	352	3,355	35,591	782,663	3,260,950	772,456	7,842	1,925,183	2,705,481
Other	429,792	523,154	655,241	339,251	365,780	2,313,218	2,133,602	416,359	—	2,549,961
Sub-Totals	72,906,312	35,148,338	152,052,947	60,873,696	34,721,684	355,702,977 <sup>1</sup>	188,061,718	10,755,027	37,051,683	235,868,428
Less: Receipts and Revenues Credited to the Vote						58,985,041				58,985,041
TOTALS						296,717,936				235,868,428
						7,210,000				539,796,364

Source: 1976-77 Department of Public Works Annual Report.

<sup>1</sup>In addition there was an expenditure of \$32,000 for court awards.

---

## CHAPTER 1

---

### REALTY MANAGEMENT AND SERVICE: THE ROLE OF THE DEPARTMENT OF PUBLIC WORKS

#### **Objectives of the Department**

The Department of Public Works has two main roles: realty management and service. In the first, it acts, within the limits of its authority, as federal government agent to ensure that the billions of dollars in existing federal real property as well as the investment of some half-a-billion dollars in new property each year, bring the best return. In the second, it serves as agent for federal departments and agencies, making sure that they have the necessary accommodations, lands and land improvements to discharge their responsibilities effectively.

Department of Public Works  
Annual Report. 1976-77

The Department of Public Works has from its inception existed to provide service to other federal departments and agencies. The obligation imposed by its service role is described in its statement of objectives. Public works will ensure that departments and agencies have "the buildings, lands and any improvements to those lands necessary to discharge their responsibilities effectively." The performance of this service role is, however, affected by a variety of outside circumstances. The Deputy Minister told the committee at the opening of its examination of the Accommodation Program:

The Department has been shaped by circumstances and events rather than through a conscious process of self-determination...The Department is a pragmatic organization, responding to...and frequently caught up in...circumstances not of its own making. (1:11)

During the past fifteen years many of these overlapping circumstances and events have had a profound impact on the administrative organization of the Department of Public Works and the articulation of its present policy objectives. The Report made in 1962 by the Glassco Commission contained extensive recommendations in support of the Commissioners' view that Public Works should be assigned a substantially strengthened role in the management of federal real property. The Committee looked at these recommendations and its commentary on the degree to which they have been implemented opens this examination. But as Mr. Williams further suggested, the Department always seems "to be faced with the challenge of working out responses to a changing milieu while struggling to maintain current operations at an acceptable level of effectiveness." (1:11) Policy decisions taken by the Cabinet or the Treasury Board about the organization and activities of the entire federal public service

in all of its activities inevitably have accommodation implications and the Committee also considered many of these.

### **The Response to the Glassco Commission Recommendations About DPW**

The Glassco Commissioners reviewed the activities of the Department of Public Works as one of the common supporting services for government activities whose special province was “the procurement and maintenance of real property.”<sup>1</sup> Their recommendations were designed to assist Public Works to reassert its primacy in this area upon which other departments had increasingly encroached. They were seriously disturbed by the apparent lack of common policy and scrutiny to ensure standards of management or even common understanding of what was entailed in the effective management and development of the vast investment in real property owned and leased by the Crown. While it took ten years to accomplish, their recommendations relating to the acquisition, inventory and use or disposal of land have been largely implemented through the revision of the Expropriation Act making Public Works the sole expropriation agent, the adoption of the new federal land policy and the creation of the Central Real Property Inventory. The Committee’s detailed assessment of the Department’s performance in this area is found in Part III of this report.

As noted above, the Glassco Commissioners were concerned about the degree to which real property operations had been assumed by other departments.<sup>2</sup> Incredibly—even now—departmental officials could not tell the Committee precisely what percentage of the total property function of the government is currently administered by Public Works. In fact, they reported difficulty with the figure given by the Royal Commission that in 1962 DPW controlled only 40 percent of new construction.<sup>3</sup> However, it is clear that Public Works today performs a much higher percentage of the total federal real property function than it did in 1962. The Committee was told that eighty-six departments and agencies now come to Public Works for their real property requirements. All general purpose or multi-client accommodation is provided by Public Works. In recent years, the programs of client departments have provided over \$200 million annually for the design and construction of special purpose or single client buildings and facilities supervised by Public Works. Referring to this increased volume of business for client departments, the Deputy Minister, Mr. Williams suggested that the pre-Glassco situation has

---

<sup>1</sup> Canada, *Report of the Royal Commission on Government Organization*, Vol. 2, “Supporting Services for Government”, Ottawa, 1962, p. 14

<sup>2</sup> *Ibid.* p. 26

<sup>3</sup> “In spite of an intensive search through the working papers of the Commission we have been unable to determine how the figures quoted in the report were arrived at.” Letter to Chairman from Public Works, April 27, 1977

been turned around. He noted that even allowing for inflation, the department was not doing that level of work in the years prior to Glassco Commission study. (4:36)

Even though real property responsibilities and skills are still dispersed among a number of departments, Public Works now routinely constructs some buildings and provides accommodation and services for the Departments of National Defence, Indian and Northern Affairs, Agriculture and Transport which were cited in the Glassco Report as the departments which had assumed major activities in these fields.<sup>4</sup>

Action on other Glassco recommendations has been slow or bogged down in protracted consideration outside the department. First, it was suggested that if Public Works gave up those duties designed to serve the public rather than other departments of government, its common service role as manager of real property would be strengthened. Only two such activities have so far been transferred. Purchasing and distribution of office furniture is now a responsibility of the Department of Supply and Services. In 1973 the Department of Environment took over the administration of the small craft harbours program. However, Public Works still provides design and construction service for this program from its Marine Program vote as well as providing for the construction of larger harbour facilities, protection works, graving docks, locks and dams. Interprovincial and international bridges are provided for in the DPW Transportation and Other Engineering program appropriation.

Secondly, it took ten years to complete the reorganization of the department to emphasize the realty service orientation. The Glassco Commissioners suggested that the department "should feel its way rather than attempting to blueprint its organization in detail."<sup>5</sup> They favoured substantial delegation of authority to the field through five or more strong regional offices.<sup>6</sup> By 1966 a blueprint was ready in the form of a sixteen volume report prepared for the department by a team of private sector management consultants. The 1966 organization plan established six geographical regions whose Directors General were delegated greatly increased authority. For a variety of reasons this reorganization did not prove to be satisfactory. However, this was the structure on which a further reorganization, known in the department as Project Renewal, was built after 1970. Project renewal was not fully implemented until January 1, 1973. It set down the basic form of the present departmental divisions of responsibility described in Chapter 7 of this report.

Thirdly, while there have been protracted discussions about the Glassco recommendation that Public Works be designated as the "single agency to

<sup>4</sup> Ibid. p. 26

<sup>5</sup> Ibid. p. 68

<sup>6</sup> Ibid, p. 67



perform the real property management function,”<sup>7</sup> this recommendation has not been implemented in law or adopted in practice. It was, however, recognized that the existing federal real property management concepts were out of date. A Cabinet directive in June 1969 established a joint Treasury Board/Public Works working group to elaborate improvements. Realty management—as defined in the objectives quoted at the start of this chapter—was added to the long established service role of Public Works at this time for the stated purpose of attaining the highest return on the government’s enormous investment in real property. These two roles are now interdependent. To fulfill them DPW must assume responsibility for the acquisition and the continued effective use or disposal of real property, including both land and buildings, required to permit federal departments and agencies to carry out their assigned responsibilities.

In 1970 the joint working group was transformed into a ‘task force’ through which Public Works worked for the definition and acceptance of a formal mandate as the single designated self-financing real property agency. This task force, and a successor to it on which the Privy Council Office was also represented, kept the mandate proposal under consideration until 1975. Most of DPW’s client departments were consulted about it and the financial implications for client departments inherent in its acceptance. This task force has ceased to function after failing to reach agreement on the Public Works proposal.

Finally, Public Works has not been authorized to charge departments and agencies for accommodation and real property services rendered to them in spite of elaborate preparations by the department to carry out this recommendation and consideration of it by the joint task force in conjunction with the mandate proposal. The failure of the central agencies to implement these last two Glassco recommendations is discussed in Part I of this report.

### **Other Circumstances and Events Affecting DPW**

In the past ten years Public Works has had to respond to many challenges arising from broad policy decisions about the public service taken by the Cabinet or the Treasury Board. First, in 1969 there was a major reorganization of twenty-seven government departments and agencies which involved eighteen different buildings and necessitated the negotiation of major rentals in three buildings.

Secondly, as the present Minister explained to the House of Commons in May 1977, the government has since 1969 “been implementing a plan for the National Capital Region with two major objectives: the achievement of a more balanced and equitable distribution of public service jobs between Ottawa and

---

<sup>7</sup> Ibid, p. 59

Hull, and an increase in the level of Crown-owned facilities as opposed to leased space.”<sup>8</sup> Public Works, as a result, undertook the construction of the large complex of new federal buildings in Hull.

Thirdly, and coincidentally with the development of the plan for the National Capital Region, a task force under the direction of the Treasury Board began in 1972 to study ways to reduce the concentration of federal public service activity in the Ottawa-Hull area by decentralizing some units to other parts of Canada. A report by the Minister of State for Urban Affairs in 1974 estimated that 25 percent of all federal employees were located in the capital region, and that even a five percent shift could involve 25,000 federal public service jobs.<sup>9</sup> Decentralization outside the capital region and relocation of 15,000 public service jobs from Ottawa to Hull are manifestations of broad social and economic policies of the government to which Public Works has had to respond speedily.

A fourth aspect of the changing milieu which has deeply affected Public Works activities has been the extraordinary growth of the federal public service, a situation which prevailed until 1976. In the decade prior to 1975-76, the public service doubled.<sup>10</sup> In 1965 there were 140,206 employees appointed under the Civil Service Act. By 1975-76, the number of employees under the Public Service Employment Act had increased by 142,963 to 283,169.<sup>11</sup> Nearly 76,000 of these employees worked in the National Capital Region.

The enormous demand for office accommodation in the National Capital Region had to be met much more quickly than the Crown construction process would allow. To cope with the immediate need, DPW leased large quantities of space on the Ottawa side on mainly short term arrangements. Developers who signed leases with the federal government may have assumed they would not be affected by the federal building program policy which was proceeding at the same time. However, by the spring of 1977 with new buildings nearing completion upwards of 15,000 civil servants began to move out of leased premises in Ottawa into Crown-owned buildings. Coincidentally the growth of the public service had been arrested. The full implication of these two events was suddenly perceived and became the subject of widespread parliamentary and press comment. Strong representation by local interests was made to the Committee about the devastating effect of relocation on the inventory of private sector office accommodation in Ottawa.

In addition to straight leasing of office space to meet the demand created by the phenomenal growth of the public service in a short period, Public Works for the first time also completed negotiations to acquire space by lease-

<sup>8</sup> Canada, House of Commons, *Debates*, May 17, 1977, p. 5716

<sup>9</sup> Canada, National Capital Commission, *Annual Report 1974-75*, Ottawa, p. 10

<sup>10</sup> Canada, *Debates of the Senate*, “Speech from the Throne,” October 12, 1976

<sup>11</sup> Canada, Public Service Commission, *Annual Report 1976*, Ottawa

purchase, which is defined by the department as “a lease approach whereby the owner of the real property has agreed to sell the property upon the termination of the lease contract.”<sup>12</sup> Public Works has made four major lease-purchase agreements which have also led to parliamentary and press criticism. A good deal more is said about lease-purchase in Chapter 9.

As a service agency Public Works also has to be responsive to changes in standards in office accommodation and these are continuously being improved in both the public and private sector. Both leased and Crown constructed federal buildings now reflect recognition of the point made by the Glassco Commissioners that “the provision of adequate accommodation and congenial working conditions has a direct impact on employee productivity and morale.”<sup>13</sup> In this Public Works is guided by Treasury Board policy which obliges it “to provide departments with sufficient office accommodation to meet their program needs at minimum overall cost, taking into consideration the practices of other large employers in Canada.”<sup>14</sup> Air conditioning was adopted as a standard amenity in government occupied premises in recent years only after it had become standard equipment in private sector office accommodation.

### **How the Demand for General Purpose and Single Purpose Accommodation Is Met**

The comparative figures relating to the department's building inventory show graphically how the increased demand for accommodation has been met. Between March 31, 1971 and March 31, 1976, Crown owned space increased by over ten million square feet or by 20 percent to a total of 66.5 million square feet. Leased space during the same period increased by nearly 14 million square feet or 52 percent to a total of 26.5 million square feet.<sup>15</sup> The department's expenditure for acquisition and maintenance of this inventory has more than doubled since 1971.

Public Works is not, however, given the responsibility for financing the provision of all the accommodation required for government programs. Circumstances and events have also brought about a confusing division of responsibility. At present, Public Works provides multi-user general purpose buildings across Canada to house the office accommodation needs of all departments. There is another category of buildings for which Public Works is not always responsible—single purpose buildings. They are so called because they are designed to meet special program requirements “of so particular a nature” that the physical characteristics of these buildings exclude the possibil-

<sup>12</sup> Canada, Department of Public Works Memorandum, “Commonly Used Real Estate Terms,” March 9, 1977

<sup>13</sup> Canada, Royal Commission on Government Organization, *op.cit.* p. 54

<sup>14</sup> Canada, Treasury Board, *Guide on the Administration of Office Accommodation*, Ottawa, February, 1977, p. 1

<sup>15</sup> See Nine Year Comparative Summary Table 1 on p. 1

ity that they might ever be suitable for any alternative economic use.<sup>16</sup> Prisons, mail processing plants and fisheries laboratories for example, now are classed as single purpose buildings. As a general rule, the capital and operating costs of these single purpose facilities are seen as arising from the specific departmental program to be housed therein, and departments include these costs in their program funding.

However, Public Works also funds some single purpose facilities. Post Offices and Customs facilities which are listed in the Main Estimates as single purpose buildings have traditionally been provided for from the Public Works appropriation. Both general and single purpose buildings in the National Capital Region are also included in the Public Works estimates for two reasons. First, because the Public Works Act used to assign the Minister direct responsibility for construction and services in connection with all public buildings "at the seat of government," although this phrase was removed from the act in 1976. Secondly, the Treasury Board decided some time ago that for ease of reference and for the purpose of full cost disclosure, all the requirements for new accommodation in the National Capital should be displayed in one place—as Major Capital Projects in the DPW Accommodation Program vote. Some exceptions to this convention have appeared. Funds have been provided in the appropriations of the Departments of Transport, National Defence and the National Capital Commission for some buildings in Ottawa. Thus, the fragmentation of responsibility in the provision of accommodation referred to by the Minister is perpetuated.

These then are the factors against which the Committee had to assess the department's effectiveness in adapting to meet the demands put on it. The recommendations of the Glassco Commissioners were taken seriously by officials and those which related to internal departmental arrangements have been put into effect. According to one of them, the top management group moved to meet the other circumstances and events affecting the work of the department in a manner which they identified among themselves as "controlled pragmatic flexibility."<sup>17</sup>

<sup>16</sup> Paper submitted by DPW to the Committee, June 23, 1977

<sup>17</sup> Walter Baker, "Reorganizing the Federal Department of Public Works," *Optimum*, Vol. 2, No. 4, 1971, p. 41. Dr. Walter Baker was Assistant Deputy Minister (Planning and Systems) in DPW from 1970-74. He made the unpublished manuscript of his book "Organization Under Stress: Reorganizing the Federal Department of Public Works" available to the staff of the Committee for reference. Some of the material from this unpublished book has also been used in Dr. Baker's classes at Ottawa University.





**PART I**

**THE CENTRAL AND PRIMARY PROVIDER OF  
ACCOMMODATION AND RELATED REAL PROPERTY  
SERVICE**



---

## CHAPTER 2

---

### A COMMON SERVICE AGENCY?

The rapid rate of growth of the public service which generated much of the current activity of the department has now slowed appreciably. In 1976-77 it was held to an increase of 1.5 percent and the target for 1977-78 is below one percent. Further reductions for 1978-79 are expected. On the surface therefore it would appear that the need for accommodation will be reduced. Paradoxically as a result of the impact of other government policies the demand for new accommodation will persist in some locations because of the continuation of other policies. Decentralization of working units of several departments from the National Capital Region to other parts of Canada will necessitate the provision of accommodation in the new locations. To make the federal presence more visible, offices of federal departments in the principal urban areas are being brought together in new Crown-owned buildings. Site preparation has begun for the most ambitious of these projects, Place Guy Favreau, the new federal complex in Montreal currently estimated to cost \$101 million.<sup>1</sup>

These and other policy changes exert pressures for accommodation which must be met in addition to the basic on-going demand anticipated in departmental planning. Mr. Williams explained that existing buildings become obsolete both physically and in relation to the needs of the departmental programs being accommodated.

We always have an accommodation plan which is on-going. We define it for a five-year period in conjunction with our forecast. At any point in the planning cycle we always have a number of buildings that...we wish to abandon, for one reason or another... (2:24)

### Lack of Support for DPW's Mandate Proposals

The Committee was concerned that unlike the Supply Administration of the Department of Supply and Services, which is the other principal common service agency of the government, Public Works has not been given a clear mandate in any statutory provision.<sup>2</sup> Nor has its role as the primary provider of

---

<sup>1</sup> Canada, *Estimates 1978-79*, Ottawa, p. 21-24

<sup>2</sup> Section 5(3) of the Department of Supply and Services Act R.S.C. 1970 (Chap S-18) reads as follows:

Common service agency

(3) The Department of Supply and Services shall be operated as a common service agency for the Government of Canada, that is to say, its activities shall be directed mainly toward providing the departments and agencies of the Government of Canada with services in support of the programs of those departments and agencies.



accommodation and related real services for the federal government been consistently fostered by the central agencies—the Treasury Board and the Privy Council Office. Other departments still retain and expand, with Treasury Board approval, some realty management activities as extensions of their program responsibilities.

The central authorities have been inconsistent in their attitude toward the mandate of Public Works in another respect. From statements made by officials in public and before various parliamentary committees it is evident that from 1971 on the department expected that it would be given authority to recover rents based on market value from client departments for the entire inventory of space under its control. In preparation for this change DPW developed and carried out a shadow billing exercise from which it learned a good deal. However, nothing happened even after protracted discussion over a five-year period by a joint Treasury Board/Privy Council Office (TB/PCO) task force about the role of common service departments and the means and implications of charging for services provided by Public Works.<sup>3</sup>

### **Single Purpose and General Purpose Accommodation Redefined**

The TB/PCO task force and its sub-committee failed to reach agreement in part because it was unable to establish an accepted and common understanding of what is included in the two categories of accommodation—general purpose and single purpose—and to separate the control and ownership of each category. The distinction between these categories of accommodation and the mixed funding of each which has prevailed for some years is untenable. There can be, in the Committee's view, only one unambiguous definition of single purpose accommodation. It is accommodation which has clearly and absolutely no alternative economic use and for which a market rental value for non-government use bearing a reasonable relationship to either the original cost or the replacement cost cannot, therefore, be readily established. The term general purpose accommodation should then be applied to all other facilities.

In assigning control and ownership of these two categories of accommodation geographic location in Canada is irrelevant. The Committee considers that single purpose facilities should be owned and funded by the user departments by appropriation as indeed, except for the National Capital Region, they now are. Thus the funding of single purpose buildings in the National Capital Region by DPW should now be terminated. However, DPW as the central realty organization should continue to be responsible for the construction of all single purpose facilities on behalf of user departments. When narrowly defined

---

<sup>3</sup> Letter to the Chairman from G. B. Williams, November 15, 1976. Note: This letter was sent to the Chairman as a result of several questions asked by the Committee about the issue of charging for services. The letter and its four appendices contain all the relevant reports and correspondence arising from the examination of the Department's proposals by a sub-committee established between the Treasury Board and the Privy Council Office.

as recommended, there would in fact be very few single purpose properties. Prisons and specialized laboratories would meet this criteria, but others now listed as single purpose such as post offices and data taxation centres would be reclassified as general purpose buildings. General purpose accommodation would include all other Crown-owned and all leased properties, and would be controlled solely by Public Works.

**The Committee recommends that the terms 'single purpose buildings' and 'general purpose buildings' now in use in the Main Estimates and throughout the administration of the Accommodation Program be redefined. Single purpose should only apply to Crown-owned buildings for which a current market rental value for non-governmental use which relates to cost or replacement cost cannot readily be established regardless of their location in Canada. The term 'general purpose' should be applied to all other Crown-owned or leased facilities.**

**The Committee further recommends that all single purpose buildings should be owned by the user/occupant department and all general purpose accommodation should be controlled by the Department of Public Works.**

### **Designation of Public Works as a Common Service Agency**

The Royal Commission on Financial Management and Accountability (the Lambert Commission) was established in 1976. A *Progress Report* issued in November, 1977, indicates that the Royal Commission has re-opened the question of the relationships of user departments with common service departments.<sup>4</sup> It is an important question and central to the Committee's examination because Public Works was the first federal common service department. Many other departments function in whole or in part as common service agencies—Supply and Services, the Public Service Commission, Statistics Canada, the National Film Board—to name a few. The existence of common service agencies is also widespread in provincial and municipal governments. Providing common services in this way is, to quote a former deputy minister of Supply and Services, "merely the application in government administration of the economic principle of the specialization or division of labour—a principle that finds application in almost all aspects of modern economic life."<sup>5</sup>

Common service agencies are necessary in the organization of government administration. Their existence permits more rational decision making, avoids duplication of services and facilities and should increase efficiency. Renewed and serious consideration should now be given by the central authorities to the

<sup>4</sup> Canada, Royal Commission on Financial Management and Accountability *Progress Report*, Nov. 1977, p. 44

<sup>5</sup> H. R. Balls, "Common Services in Government", *Canadian Public Administration*, Vol. 17, Spring 1974, p. 227

role of the Department of Public Works as a common service agency with full statutory responsibility to provide policy and operational departments with accommodation and related real property services in line with the restricted definitions of single purpose and general purpose accommodation recommended above.

In making this recommendation the Committee has for practical reasons exempted properties outside Canada. In 1970 the Cabinet decided that support services for foreign operations of all Canadian government departments and agencies (except for agency and proprietary corporations and operational military formations) be integrated into one system under the Department of External Affairs, but subject to review by the Interdepartmental Committee on External Relations (ICER). For day to day operations abroad this makes sense. However, the Department of Public Works should be consulted about proposals for any large capital construction projects, particularly the construction of office accommodation abroad.

In the past other departments have been permitted by the Treasury Board to design and construct a part of their accommodation requirements. This need not continue. The advantages of centralizing all such activity in Public Works as the common service agency with full competence in this area should be recognized. Public Works should manage the design and construction of all federal accommodation, whether single purpose or general purpose. However the Committee appreciates that the definition of "accommodation" may be ambiguous. Indeed in the United States it has been found that in assigning responsibility for common purpose accommodation to the Public Building Service, as Mr. Ink, formerly Deputy Director of the U.S. General Services Administration testified, "there is a grey area in which it is almost decided on a case-by-case basis." (23:11) DPW would not, for example, take over from the Department of the Environment responsibility for designing and building fish ladders or from the Department of Agriculture the design and construction of hen houses. DPW's responsibility would be for places in which government employees actually work.

**The Committee recommends that amendments be made to the Public Works Act and other acts as required to designate the Department of Public Works as a common service agency, its activities to be directed toward providing the departments and agencies of the Government of Canada with accommodation and related real property services required to support the programs of those departments and agencies. An exception should be made for properties owned or leased by the Government of Canada outside Canada; the Department of External Affairs should continue to manage all these properties.**

**The Committee also recommends that the Department of Public Works should be responsible for the design and construction of all federal accommodation, whether it is single purpose or general purpose accommodation.**



---

## CHAPTER 3

---

### SHOULD DEPARTMENTS PAY FOR SPACE? THE CONCEPT OF REVENUE DEPENDENCY

A major portion of the accommodation required by other government departments is now supplied by DPW out of its departmental appropriation. Thus, the other government departments occupy this accommodation largely free of the normal charges of ownership or rent. This means that user departments have little incentive to be careful about the acquisition or continued use of accommodation for their activities.

For almost two decades a variety of institutions have been advocating arrangements which would—in the words of the Report of the Glassco Commission—ensure that departments are made “aware of the monetary consequences of their space requirements.”<sup>1</sup> Others which have over the years made similar recommendations include the Auditor General, the Department of Public Works, the House Committee on Public Accounts and the Senate Committee on National Finance. A record of this persistent but as yet totally unsuccessful chorus of recommendations is set out in Appendix A to this report.

The Committee devoted considerable attention to this central question, exploring the implications of charging departments for their space needs with officials of Public Works, Treasury Board, all federal departments, other government agencies, the Management Board and the Ministry of Government Services of the Province of Ontario, the British Columbia Buildings Corporation, the General Services Administration of the United States Government and the realty departments of Bell Canada and the Royal Bank. It reviewed its own recommendation of 1964 which supported charging for services including space needs providing that the costs of administration were not excessive. Some highlights of this exhaustive review which has led the Committee to decide in favour of a system both to charge government departments and agencies for the space they occupy and to require the Department of Public Works to operate its accommodation program on a revenue dependent basis are recorded in this chapter.

#### **Notational Display: An Alternative to Charging for Services**

Since 1960, the Auditor General has repeatedly recommended that parliamentary appropriations more completely record expenditures incurred for

---

<sup>1</sup> Canada, *Report of Royal Commission on Government Organization*, Vol. 2, “Supporting Services for Government,” Ottawa, 1962, p. 57



specific services. In response to his observation of that year, supported by the Public Accounts Committee in 1961, the Treasury Board included in the Main Estimates for 1962-63 for each department a breakdown of "Approximate Value of Major Services not included in these Estimates." The first item was a total in dollars for "Accommodation (provided by the Department of Public Works)." The Glassco Commissioners noted this innovation in their report in 1962. They supported it as a modest step toward the goal of making departments more aware of the cost of their accommodation and recommended a second major step. They wrote that "an actual accounting distribution of all elements of cost is required, with the user departments meeting such charges from their own appropriation."<sup>2</sup>

When the form of presentation of the Main Estimates was changed in 1970-71, it was apparently decided that the individual items such as accommodation, accounting and cheque issue services, etc., making up the total for 'Services Provided by Other Departments', should be combined. Departmental accommodation costs continue to be calculated annually by Public Works. However, the amount for accommodation for each department can no longer be identified in the explanatory 'Program by Activities' table in the Main Estimates. As a result, Parliament and the public are denied disclosure of the accommodation costs of each department. The Committee could discover no good reason for the 1970 decision to combine in a single figure the cost of services provided by all other departments. However, the idea of recording a notational display of accommodation costs in the Estimates persists.

The Auditor General in the special audit of office accommodation in his 1976 report suggested that "the Treasury Board, in consultation with the Department of Public Works should complete as soon as possible its project for developing meaningful displays of accommodation costs in the Estimates and in the Public Accounts and for developing an appropriate reporting system to permit such costs displays."<sup>3</sup> This recommendation is repeated in the 1977 report of the Auditor General.

Before the Committee in March, 1977, Treasury Board officials advanced an elaborate form of a notational system they had developed in preference to suggestions of charging for services either on a simple charge-back system or on a revenue-dependency basis. One Treasury Board official claimed that the proposed schedule:

will provide the information necessary to review both the efficient utilization of space by government departments and agencies and also the overall management of the accommodation function in the federal public service. (9:8)

---

<sup>2</sup> Ibid. p. 58

<sup>3</sup> Canada, *Report of the Auditor General of Canada to the House of Commons—1976*, Ottawa, p. 89

In addition, he argued that the proposed format would “accommodate the status quo, and there will be no need for role changes, either in the role of the Department of Public Works or of the user department.” (9:9)

The Committee has ascertained that the amount of consultation by the Treasury Board with Public Works and other departments on the notational display for the Main Estimates and the Public Accounts discussed with the Committee has actually been minimal. The week after the Committee’s March meeting with Treasury Board representatives the notational proposal was shown to officials of Public Works. No agreement on the format was reached and no display of accommodation costs has been included in the Main Estimates for 1978-79.

The problem with a notational system is that it involves all the effort and expense to determine the cost of accommodation with none of the benefits that would be derived from a charge back system (which would impose a discipline on the client departments) or a revenue dependency system (which would impose a discipline on both DPW and client departments).

**The Committee considers the use of a notational system to display the costs of accommodation in the estimates of each federal department and agency to be a weak and unsatisfactory solution to the problem of accountability for accommodation costs.** If the costs have been established for the purpose of display in the Estimates, then why not take the system one step further and institute charge-back or even revenue dependency? Neither have been tried in spite of protracted discussions over a period of fifteen years. The Committee, therefore, considered both charge-back or cost recovery and revenue dependency in some detail.

### **Charging for Services: Definition of Terms**

One of the problems encountered in analysing the problems and possibilities involved in charging for services is the imprecision in terms used. ‘Charge-back’, ‘cost-recovery’, and ‘charge-for-services’ were used interchangeably throughout the hearings to describe a system under which user departments pay to the common service agency the direct costs of services provided.

Revenue dependency, yet another term used frequently in the hearings, involves the application of the cost-price discipline to the provider of the service in addition to the user. If Public Works were to become a revenue-dependent department, it would be required to finance its operations from revenue collected for accommodation and services provided to other government departments and agencies.

### **The Concept of Charging for Services**

The Committee was introduced to the arguments in favour of charging for services by the Minister of Public Works in his opening statement:

I have suggested a fundamental need to raise the level of awareness among public service managers and politicians regarding the importance of their real property assets, and at the same time to increase the visibility of real property costs in government programs. As one mechanism to attain both these goals, consideration has been given to placing DPW activities on a "charge-for services" basis, the rationale for this being that if customer departments are required to provide for these services in their budgets there will be greater incentive to make the most effective use of the real property resource. (1:47)

Public Works has in fact sought to institute recovery of rentals from client departments for several years. A submission was made to the Treasury Board in December 1973 for authority to proceed. This submission proposed not only that departments and agencies be required to fund in their Estimates accommodation and other real property services provided to them through Public Works, but also that Public Works be required to finance its operations out of the revenue received. At that time senior officials of the Department of Public Works were under the impression that their proposal had found essential agreement. However, the submission was rejected at the official level and never reached the Ministers of the Treasury Board.<sup>4</sup>

### Shadow Billing

For at least two years, in preparation for the application of the principle of charging for services, Public Works operated a shadow billing system through which departments were notified of the value of each unit of space they occupied. The shadow rent was set by calculating an equivalent market value for each building. These shadow charges were subsequently reviewed with senior managers of client departments. The Deputy Minister of Public Works who was responsible for carrying out this exercise reported on it to the Committee, claiming that the shadow or dummy billing system proved that charging departments rent was a practical proposition.

We had remarkably few complaints. We did get some arguments such as that our assessors were totally off on measurements or totally off on the concept of value having regard to location and condition...None of the problems that arose were other than the normal ones you would have with a landlord/tenant relationship. (7:16)

The dummy billing system was discontinued when the proposal to charge for services was rejected.

### Present Practice

Public Works already receives rental revenue and fees for service from a variety of sources. The Committee was told that at present, receipts and revenues in excess of \$40 million per annum are credited to the Accommodation Program vote from "upwards of forty government departments and agencies." (1:20) Some of these are required by their own enabling legislation to pay for accommodation, an example being the Unemployment Insurance Commission. Others like the Printing Operations of the Department of Supply and Services are fully cost accountable. Many of the corporations named in

<sup>4</sup> Letter to the Chairman from G. B. Williams, November 15, 1976

Schedule C and D of the Financial Administration Act pay Public Works for the accommodation they occupy. The RCMP contracts with the Public Works to manage buildings they own. Moreover, under the revised directives of May, 1977 all the departments which occupy Public Works managed buildings rent-free must now pay for the direct costs of tenant services carried out by Public Works. Tenant services are defined as alterations or improvements to office accommodation other than normal maintenance requested by a department and carried out during its occupancy.

### **Arguments in Favour of Charging for Public Works' Services**

The Committee considered that the arguments supporting the proposal that Public Works be authorized to recover rent as well as payment for services from its client departments far outweigh the objections which have been made. The most persuasive argument is the enhanced accountability it would enforce on departmental managers to make efficient use of accommodation. This would be reflected in various ways. Assessing need against cost would lead to some reduction in demand for accommodation. Departments would also be forced to plan and justify accommodation requirements more accurately. In addition, the actual costs of a program activity would be fully set out for Treasury Board and Parliament to assess.

The merit of charging for services including rent has been accepted by some large government and non-government agencies. It has been their experience that doing so does make managers more accountable. The Supply Administration of the federal Department of Supply and Services has charged other departments for its services for many years. The province of British Columbia, through the B.C. Buildings Corporation, has collected rent from provincial agencies since April 1, 1977. In June 1972, the U.S. Congress enacted Public Law 92-313 which authorized the General Services Administration to levy rates and charges to users for space and services at rates approximating "commercial charges for comparable space and services."<sup>5</sup> In the Royal Bank, every branch and every department in the head office is a cost centre responsible for the cost of accommodation and services. By contrast, Bell Canada, after experimenting with a cost recovery system, concluded that the nature of its operations was inconsistent with the system and abandoned it. (25:18/19) The province of Ontario has also studied the principle and rejected it.

Client departments surveyed by the Committee were divided regarding the principle of charging for Public Works' services. The majority of those which indicated willingness to pay rent, argued that actual billing would lead to fruitful discussions between the client and Public Works, with the clients able to insist on value for money and Public Works having to justify the rental rate.

---

<sup>5</sup> Ibid, Appendix B, "Role Issues: Common Service Departments 'Charging for Services Provided by DPW'—Department of Public Works Position Paper Re Sub-committee Report"



### **Arguments Against Charging for Services: Should Public Works have a Monopoly?**

The departments who opposed the charge-back cost-recovery proposal did so for two main reasons. First, they claimed such a system would be costly to put into operation, insisting that additional staff would be required to implement, co-ordinate and verify the charges levied. The Committee is of the opinion that departmental fears of administrative difficulties appear to be exaggerated and are in any event outweighed by the financial discipline of having to answer for the cost of departmental accommodation. Indeed, neither the General Services Administration nor the Department of Supply and Services found the system to be costly to put into operation nor cumbersome to operate.

The second and more substantial objection that such would give DPW a monopoly position, was shared by both client departments and senior Treasury Board officials. The Department of Industry, Trade and Commerce, for example, wrote: "It would be meaningful to charge departments for rents and for departments to budget for rents only if they could choose between Public Works and private building rental companies to satisfy their accommodation needs".

The Committee was told that nine of the thirty-eight departments and agencies surveyed by the Treasury Board-Privy Council sub-committee agreed that Public Works should charge for services and become revenue dependent. An additional ten departments suggested they favoured such a step if the so-called Public Works 'monopoly' were to be removed. Mr. S. Mensforth, the Deputy-Secretary of the Financial Administration Branch of the Treasury Board, described the results of the sub-committee survey to the Public Accounts Committee.

The difficulty we had with it was, first of all, the monopoly position. Most of the managers we spoke to agreed with the general concept, but only if they were given freedom of choice as to the location, the quality and the price of the accommodation they would occupy.<sup>6</sup>

He repeated this objection to the 'monopoly position' which he personally shared, when he appeared before the National Finance Committee.

The 'monopoly' argument appears to the Committee to have been the main reason for the rejection by Treasury Board of the Public Works' charge-back revenue dependency proposals.

At present departments are consulted by DPW about the location they prefer and the quality of accommodation they desire. If they find a proposal by DPW unacceptable they may seek Treasury Board arbitration but the onus is on the user department to justify its refusal of accommodation offered by

---

<sup>6</sup> Canada, House of Commons Standing Committee on Public Accounts, *Minutes of Proceedings and Evidence*, 57, May 6, 1976, pp. 12-3.



DPW.<sup>7</sup> If the cost of the accommodation is to be recovered from the user department as rent, the rate becomes another factor to be assessed by the Treasury Board in deciding whether a user department's objections should be recognized. Obviously, if a user department is paying market rent, it should have a much greater say in the type, location and quality of the accommodation.

Provided that departments are entitled to seek independent appraisals of market rent based on rentals for comparable private sector buildings and provided further that the Treasury Board arbitrates any disagreements with due regard to such independent appraisals, then the Committee does not think that the monopoly argument has any validity.

The Committee found the testimony of Mr. Dwight Ink, formerly Deputy Director of the U.S. General Services Administration, about the U.S. experience with the user-charge concept to be very valuable. He maintained that after being charged rent for nearly five years, U.S. agencies are now exhibiting an increased sensitivity toward the cost of space. When the price appears to them to be too high, assignment to an alternative location is requested or space requirements are reduced. This experience led Mr. Ink to the following conclusion:

I do believe in charging the using agency for services. I think it is important from the standpoint of reflecting the full cost of program operation. I think it is important from the standpoint of developing incentives for agencies to economize in the use of space...I think it enforces a greater degree of cost discipline on the supplying agency as well as the user agency because of user criticism. The user is going to be much more sensitive to the methods being used and the costs being incurred, and either failures or suspected failures emerge much more. (23:7)

### **Calculation of Rents, Fees and Charges: Direct Costs or Market Pricing?**

The Committee does acknowledge that there are difficulties to be overcome if cost-recovery is authorized. The basis for the calculation of the rent and the fees for services will probably be the most contentious.

Public Works has been preparing to charge competitive market rates for rentals since 1970. The Annual Report of the department for that year noted that "the Accommodation Division was occupied with the evaluation of its Crown-owned and leased properties to permit the accurate development of equitable rental rates in anticipation of charging client departments and agencies for accommodation."<sup>8</sup> In resubmitting its 1973 proposal to the Treasury Board in April, 1975, Public Works noted that their research indicated that private sector market comparisons were available for over ninety percent of all Public Works services.<sup>9</sup>

<sup>7</sup> Canada, Treasury Board, *Guide on the Administration of Office Accommodation*, Ottawa, 1977, Directive #24. "If a department considers that accommodation offered by DPW is unacceptable, then the department shall justify its refusal to Treasury Board."

<sup>8</sup> Canada, Department of Public Works, *Annual Report 1969-70*, Ottawa, p. 17

<sup>9</sup> Letter to the Chairman from G. B. Williams, November 15, 1976, Appendix C "Submission to the Treasury Board by DPW on 'Proposed Rearrangements in Federal Real Property Financing and Management Processes/Responsibilities'".

The Committee explored systems for determining rentals with the witnesses from the B.C. Buildings Corporation and from the U.S. General Services Administration. In British Columbia the Corporation will charge fair market value where it is possible to find a comparison, and if no valid comparison is available it will charge rents which will provide a fair return on assets. In the United States the rental rates charged to client agencies must, by law, be 'commercially equivalent rates'. To determine this rate for the varying quality levels of buildings occupied, an appraisal system has been worked out which has won widespread acceptance by the agencies. In setting the rate, independent appraisers look at three comparable private sector buildings and judge the accommodation against test criteria of age, original cost and potential income. (23:12)

**The Committee recommends that DPW charge user departments commercially equivalent market rents for all general purpose accommodation. In the case of Crown-owned general purpose accommodation the market rents would be established by independent appraisal.**

**It is important that a system be in place to ensure that DPW's monopoly position would not lead to inflated rentals. There will be no true financial discipline on Public Works and no adequate protection for client departments unless there is an arrangement where a client department can request an independent appraisal. The Committee recommends that any department which contests a rental charged by DPW for Crown-owned general purpose accommodation should be entitled to seek a review by Treasury Board which would take into consideration an independent appraisal based on rentals for comparable private sector buildings.**

In Chapter 2 the Committee recommended that ownership of special single purpose buildings, that is buildings for which there is not a market rental value for non-governmental use which bears a reasonable relationship to cost or replacement cost, should be assigned to the user departments. If this recommendation is accepted, a major problem in the calculation of rents and charges is removed, because DPW would own only general purpose accommodation. There is little difficulty in setting rates based on market value for general purpose buildings.

### **Should Public Works Become Revenue Dependent?**

The Committee considered the principle of charging for services and the mechanisms for establishing the rate to be charged in the broad context of the Public Works' proposal that its operations be financed out of revenues received from the provision of real property services to client departments. Revenue dependency is an extension of the basic user-pay concept but one with much wider ramifications. Revenue dependency would be much more equitable than cost recovery. Full accountability would be achieved because restraints would be imposed both on Public Works which would have to live within its income, and on the departmental managers required to pay for services and accommodation.

The Supply Administration of the Department of Supply and Services which has had four years' experience operating on a revenue dependent basis is worth examining in this regard. A.R. Bailey, Assistant Deputy Minister of the Supply Administration wrote that the introduction of full cost exposure is a "fundamental prerequisite to the development of revenue dependency". He continued:

Upon this cost exposure foundation can be laid the internal systems for monitoring expenditures against revenues and for holding operation managers responsible for their financial decisions.

Based on his experience in the operation of the Supply Administration, Mr. Bailey cited a number of advantages to managing a common service agency on a revenue dependent basis.

... the revenue dependency system has proven to be an invaluable means of managing a common service agency. Its principal advantage is that it creates a business-like environment at all levels of Supply Administration activity. All managers, down to the very base of the organization, are being evaluated not only in terms of the prerequisites of proper supply management and effective cost-control but also in terms of the financial viability of their area of responsibility. In this respect I think the fundamental importance of revenue dependency is that it implants managerial incentives at the micro-organizational level thereby ensuring that even the most routine tasks are performed more efficiently.<sup>10</sup>

The Committee sought a clear definition of what form of revenue dependency Public Works had proposed. Mr. Macdonald, who actively promoted the principle while he was Deputy Minister of Public Works, clarified this for the Committee:

The only revenue you would have is the fees you would charge other government departments for consulting, for building management, charging them for rent and running the business like any other real estate operator, on a balance of revenue and so on down the line. You would not have, in the scheme we devised, a single access to appropriations. (7:14)

Mr. Macdonald saw revenue dependency as an opportunity to bring into effect in Public Works "a number of techniques and mechanisms which are available to business..." This was a particularly exciting prospect, for it was an opportunity to experiment with the application of the cost-price discipline in one area of public service activity. He explained why this was possible.

You could import into the public sector the pricing mechanism because almost everything that the Department of Public Works did was priceable. There was a complex market available in the economy for all the services which the Department of Public Works performs—that is the construction and letting of space, the giving of consulting advice and so on. (7:6)

For a time Mr. Macdonald believed that Public Works would be permitted to move to revenue dependency. In September, 1974, seven months before he left Public Works, he told a meeting in England:

We have tentative approval for submitting our operations to the cost-price discipline. The undertaking will be a phased one, but as early as April 1, of 1975 the departments and

<sup>10</sup> Letter from A. R. Bailey, Supply Administration, Department of Supply and Services, Ottawa, June 16, 1977.

agencies of the federal government will be provided, in their own Estimates, with the funds necessary to pay rent for the accommodation and fees for the related services furnished to them by the Department of Public Works. At the same time, our operations will be funded out of these rents and fees, in lieu of the traditional Estimates Appropriations...

Within two years, then, a tough, disciplined system will be completely in place. The Department will be working within a cost-price framework that will make visible the measure of efficiency of its operations.<sup>11</sup>

Instead, two years after that speech was given, Public Works was informed by a letter of September 16, 1976 from the Privy Council Office that the Public Works proposal to charge departments for accommodation was “no longer under active consideration by PCO and TBS.”<sup>12</sup>

The Committee strongly suggests that this question should be reconsidered. Making Public Works dependent on the revenue received from the rent of the buildings it administers and from the sale of its services in realty management would take the accountability principle to its full limit and ensure that, as the provider of space and services, it was also cost conscious. It would put the user and the provider of space on an equal footing.

The Minister told the Committee at its final hearing that it is his intention to “pursue the introduction of the charging principle.” (26:) The Committee urges him to do so. **The Committee has reached the conclusion that revenue dependency is feasible and desirable and recommends that the Accommodation Program of the Department of Public Works be operated on this principle.**

The Committee acknowledges that moving Public Works toward a revenue dependent departmental organization will not be welcomed by many of its client departments. The Committee’s interviews with them suggested that some of this resistance stems from their experience with the cost of service they must buy from the Supply Administration of the Department of Supply and Services as well as from disagreements about the rentals suggested in the shadow billings prepared by Public Works a few years ago. However, conflicts over the rents and fees would be subject to arbitration by the Treasury Board. The guidelines and directives on the administration of accommodation would not disappear. Indeed, they provide the framework for cost recovery.

### Allocating Accommodation Costs to Programs

**The aim of charging client departments for space is to heighten cost consciousness. The Committee recommends as a means for achieving this objective that departments be directed to allocate accommodation costs to specific programs and activities.** In this way, both the Deputy Minister and all program managers would be forced to take note of the cost of accommodation.

<sup>11</sup> John Macdonald, *Notes for a Speech at the Conference on Property Management*, King’s College, Cambridge, September 24-5, 1974, pp. 2-3

<sup>12</sup> Letter to the Chairman from G. B. Williams, November 15, 1976.



In making this recommendation the Committee is conscious that it is asking federal departments to allocate costs in a manner which the large ministries in the Province of Ontario have so far thought to be undesirable. According to the Secretary, Mr. W. A. B. Anderson, this objection has been upheld by the Management Board. (22:31) This difficulty was also discussed with Mr. Ink of the U.S. General Services Administration (GSA) which has now had several years experience in operating under the principle of charging back rental costs to specific programs within various departments. As described by Mr. Ink the practice adopted by the GSA appears to the Committee to be equally applicable in the present circumstance.

We charge back to the organizational units in the agency and leave it up to the agency to decide whatever crosswalks to build from the organizations to the programs. (23:31)

### **Real Estate Taxes**

Some client departments particularly objected to paying fair market rents to DPW because comparable market rents often include municipal taxes which Public Works does not now pay. The Committee felt it was important to examine this criticism in some detail.

Even though section 125 of the British North America Act exempts Crown property from municipal taxation, the government makes a comparable payment. Under the authority of the *Municipal Grants Act, R.S.C. 1970, c. M-15*, the Department of Finance pays grants to municipal, school and provincial taxing authorities in lieu of real estate taxes and local improvement charges on Crown property. These grants are included in the appropriations of the Department of Finance and have been made every year since 1950.

Grants are not paid on certain types of federal properties such as parks, historic sites, monuments, museums or Indian reserves; nor are they paid on Crown property which is leased to the private sector. The Houses of Parliament are excluded, but the City of Ottawa receives a special grant for municipal services provided to them. The Municipal Grants Act does not apply to property under the control of Crown corporations; however, a number of these corporations are authorized to pay their own grants in lieu of taxes, and these grants must conform to those given under the Act.

It is the responsibility of the municipality to apply for such a grant in lieu of realty taxes from the Department of Finance. Along with their application each municipality includes the amount of the assessment as calculated by their assessors. Valuation officers in the Department of Finance review these assessments, and in the case of a disagreement, negotiate an acceptable assessment with the municipal authority. The Department of Finance then calculates the amount of the grant. Grants are roughly equivalent to the local taxes, but can be reduced where the federal government provides a service to its own property which is included in the tax rate (e.g. schooling at defence bases, police protection). The number of these types of reductions is minimal; grants are usually very close to the amount of taxes that would be paid.



Grants in lieu of realty taxes are charges which are incurred by the government as part of its property operations. They are now paid by the Department of Finance and in a sense are a hidden cost. But these payments are in fact an element in the cost of holding and using property. **The Committee, therefore, concluded that responsibility for paying grants in lieu of taxes should be transferred to the Department of Public Works.** Public Works in turn would allocate the grants to individual properties and recover the cost from client departments and agencies. Normally this would be done through the collection of fair market rents. For single purpose buildings which become the responsibility of individual departments, DPW would pay the grants and recover the direct costs from the department concerned.

### Other Costs

To be equitable the Department of Public Works should assume all overhead costs normally borne by a private developer so that the cost-price discipline on DPW would be comparable to the private sector. In addition to realty taxes a private developer has the following direct costs: insurance, borrowing costs and income taxes. The government traditionally does not carry insurance; put differently, its size permits it to spread the risk, but it still has to provide for losses. DPW's holdings would be quite large enough for it to self-insure, but it would have to put funds aside out of revenue in order to build up an insurance fund out of which losses would be paid. The details of the insurance fund would be shown in the DPW accounts (to be described in the next chapter) but the funds received from premiums would be paid to the Consolidated Revenue Fund and any losses would be paid out of the Consolidated Revenue Fund. DPW would not pay income taxes, but most developers defer taxes through taking depreciation, so this situation is also comparable.

DPW's main advantage as compared to the private sector would come from its ability to borrow at the government rate, an important saving in a capital intensive field of activity. Balanced against this, however, would be certain expenses which a private developer would refrain from incurring, yet which DPW must accept. These would result from prestige factors and, in some instances, from heritage considerations. In order to make a comparison with the private sector equitable, it would be appropriate to isolate direct costs incurred by Public Works which were attributable to considerations of prestige or heritage and to cover these by a separate appropriation. In this way DPW would not bear the extra cost and the client department would not be charged either. A further attraction of this approach is that the cost of prestige and heritage factors would be displayed separately for Parliament and the public to see and judge. However, inevitably there would be costs associated with prestige considerations which could not be identified and covered. These would be compensated for by the lower cost of borrowing. On balance, it would seem that a system could be devised permitting valid comparisons between a private developer and DPW.

---

## CHAPTER 4

---

### A PROPOSAL FOR THE OPERATION OF REVENUE DEPENDENCY IN PUBLIC WORKS

The Committee examined the operations of the Supply Administration of the federal Department of Supply and Services, the British Columbia Buildings Corporation and the U.S. General Services Administration to assist it in deciding how the principle of revenue dependency could be most effectively applied. To ensure continuous and direct accountability to Parliament, the Committee prefers the departmental pattern adopted by the Supply Administration of the Department of Supply and Services to the Crown corporation organization adopted by the revenue dependent B.C. Buildings Corporation.

In respect of DPW's provision of accommodation to other government departments revenue dependency will require some modification of government financial practices. Chief among these would be to allow DPW to employ accrual accounting and to capitalize Crown-owned general purpose accommodation. However, this must be done while preserving the cash accounting system used by the federal government in the Estimates, which requires capital expenditures to be budgeted in the year they are spent. It is also important to preserve the principle of parliamentary control. Therefore, DPW should not be allowed to accumulate funds beyond its requirements under the revenue dependent system and it should be required to seek parliamentary authority for any major capital expenditure.

In order to fit all these requirements **the Committee recommends the establishment of a DPW Building Fund. The Building Fund would operate on an accrual system of accounting and would capitalize its Crown-owned general purpose accommodation. However, its net profits would be returned to the Consolidated Revenue Fund annually and its major capital expenditures would be provided by appropriation. The details of such expenditures would accordingly be displayed in the DPW Estimates and be subject to direct parliamentary control. Through the Building Fund DPW would provide three main services to the federal government:**

**(1) it would acquire all Crown-owned general purpose accommodation and lease it to other government departments;**

**(2) it would lease general purpose accommodation from others and sub-lease it to other government departments;**

**(3) it would provide a variety of services to other government departments including, amongst others, services related to the design and construction of single purpose accommodation.**

**(1) Crown-Owned General Purpose Accommodation**

**(a) New Facilities**

When DPW requires a new general purpose facility it would provide for the required appropriation in its departmental Estimates. Once the appropriation has received parliamentary approval, DPW would proceed with the design and construction of the facility. As funds were required, they would be advanced by the Consolidated Revenue Fund (CRF) to the Building Fund and a debt would be established between the two agencies. This debt would be repayable on a schedule similar to the repayment schedule for a mortgage in the private sector on a similar type of facility. The interest rate would be the current interest rate for federal government bonds of a term similar to the repayment term of the debt. Although repayment would commence upon completion of the facility, interest charges would run from the time the funds were advanced from the CRF to the Building Fund. In this way the Building Fund would not be exempted from the cost of bridging, which is a cost also incurred by private developers. The debt could be evidenced by an exchange of letters between the President of the Treasury Board and the Minister of Public Works.

**(b) Existing Facilities**

In order to operate a revenue dependent system it would be necessary to bring all existing Crown-owned general purpose accommodation into the Building Fund. If this were not done, DPW would receive market rents for existing accommodation without having to offset the income against the costs of ownership. Other government departments would feel that the system was inequitable and DPW would not be faced with the discipline that revenue dependency is meant to provide. Accordingly all existing Crown-owned general purpose accommodation would be independently appraised and the Building Fund would purchase this accommodation at the appraised values from the CRF. In this case the CRF would not have to advance funds to the Building Fund for the purchase, but a debt would be established between the Building Fund and the CRF which could be evidenced by an exchange of letters between the President of the Treasury Board and the Minister of Public Works. As in the case of new facilities, this debt would be repayable on a schedule similar to the repayment schedule for a mortgage in the private sector on a similar type of existing facility. The interest rate would be the current interest rate for federal government bonds of a term similar to the repayment term of the debt. Repayment would commence as soon as the Building Fund acquired the facilities.

Existing and new facilities would be capitalized in the Building Fund at their acquisition costs. Each facility would be depreciated over the same term as the debt on the facility is to be repaid to the CRF. This accommodation

would be leased to the other government departments at market rents based on the facility, its location and the term of the lease. The Building Fund would have to pay the costs associated with each facility out of the rent received and would also have to repay the loan to the CRF plus interest.

If a major renovation were required to an existing facility, DPW would borrow the funds from the CRF on a commercially acceptable repayment schedule at the appropriate federal government bond interest rate, the lease to the user department would be terminated and a new lease entered into at the market rent of the renovated facility.

The Building Fund would self-insure all Crown-owned general purpose accommodation by setting up an accrued liability in its accounts. A portion of the rent received equal to the appropriate insurance premium would be credited to the account, although the funds representing this credit would flow through to the CRF. Losses would be paid by the CRF, but the amount would be debited to the Building Fund building insurance accrual account.

The net profits of the Building Fund would be transferred annually to the CRF so that DPW could not accumulate funds and be able to undertake capital projects without parliamentary approval. If the cost of DPW's assets were entirely funded by loans, and there was no equity holding, deficits would accumulate if Public Works' revenues were insufficient to cover costs and to repay the loans. Nevertheless since rent inflation tends to be higher than cost inflation, the Committee considers that the prospects are good that DPW would be able over time to cover its costs and repay loans. If it were unable to do so and showed losses, these losses would have to be made up by appropriation and the operations of the Building Fund would have to be reviewed to determine whether the situation arose from a lack of equity, mismanagement or other reasons. Another problem might arise in the longer-term if DPW had paid off loans for property which continued to have a useful life. In such circumstances, it would seem logical to reappraise the property, recapitalize it in the Building Fund and create a new debt to the CRF.

## **(2) Crown-Leased General Purpose Accommodation**

The Building Fund would take over all existing leases for general purpose accommodation and enter into all new leases. It would sub-lease this accommodation to other government departments at the rent paid by the Building Fund plus a service charge approved by Treasury Board.

## **(3) Other Services**

DPW would continue to provide a variety of services to other departments. These would include, among others, design and construction services to departments in connection with the construction of single purpose facilities. All services provided by DPW would be charged at market rates and if no market rate were available, they would be charged at cost to DPW plus a service fee. As in the case of the Supply Administration of the Department of Supply and



Services, the rate structure for DPW services would be formulated under the close scrutiny of both the Treasury Board and the user departments.

### **Financing Arrangements**

Working capital would be required by the Building Fund and this would be provided by departmental appropriation in the normal manner.

The user departments would obtain the funds to pay rent and other charges levied by DPW for its services by appropriation. These amounts would be paid to DPW and credited to the revenue of the Building Fund. The Committee has taken note of the fact that the rental paid by departments occupying properties would represent a net increase in the government's expenditure estimates. Under the present system of cash accounting there is no charge for this space. However, this net additional rental expenditure would be balanced by DPW's payment against the debt which it would incur for these same properties. These repayments to the Consolidated Revenue Fund would be treated as revenues, as would the annual transfer of the net profits of the Building Fund to the CRF. Such an approach would allow DPW to operate on accounting principles which would provide a constant commercial test of its efficiency, while the rest of the government accounts would continue to be based on traditional cash accounting. Although DPW would show fixed assets on its books, they would not turn up on the government accounts, where they would represent a major departure from the generally accepted method of accounting for government fixed assets.

Under this form of revenue dependency, the Department of Public Works would develop two sources of income—rental and service payments from client departments on the one hand and appropriations on the other. The latter would cover a variety of activities, such as the following:

- a) its Marine and Transportation programs
- b) its Fire Prevention and Protection activities
- c) direct costs for prestige and heritage considerations in its building program
- d) experimental programs such as Computer Aided Design and Master Government Specification
- e) appropriations to the Building Fund for working capital and for major capital projects

But for the Accommodation Program itself, the department would become revenue dependent, charging for accommodation and services on a properly commercial basis. A detailed question which would have to be resolved would be charges for the Deputy Minister's office. Some of his time is spent supervising activities other than the Accommodation Program and it would be legitimate to charge some costs to these appropriations. However, this practice would have to be carefully supervised by Treasury Board, since this could be used to transfer costs legitimately belonging to the Accommodation Program.



## ALLOCATION AND CONTROL OF SPACE — AN EXPANDED ROLE FOR PUBLIC WORKS

The cost of unused space retained by the Department of Public Works for client departments in general purpose accommodation can in aggregate amount to a considerable sum. Significant delays in the occupancy of space in six buildings and a two-tower complex all leased through the large 1974 tender call number 5 were cited in the Auditor General's 1975 report. Accumulated rental costs for unoccupied space leased under the terms of that tender call amounted to \$487,000 as of March 31, 1975. The report estimated that an additional \$4.5 million would be spent on vacant premises in these buildings during 1975-76 before all the leased space became fully occupied.<sup>1</sup> Costs for unoccupied space in Crown-owned buildings cannot be as readily identified but are obviously also incurred.

The repeated occurrence of unnecessary expenditures for unused space prompted the Auditor General to include the results of a special audit of Office Accommodation in his 1976 Report. The management and control of the occupancy of space arranged by Public Works for departments was reviewed by the Committee in some detail. The Auditor General's observations and recommendations were discussed with several witnesses.

### Vacancy Rate

The Committee was assured by Public Works that the vacancy rate as a percentage of both Crown-owned and leased space under the control of the department averaged about three percent. "The information we have from the market people is that the normal vacancy rate you would expect to find would be in the region of five percent." (1:40) However, the DPW vacancy rate should be lower than the acceptable commercial vacancy rate because DPW is not subject to competition in the provision of general purpose accommodation to other government departments and agencies. The percentage of vacant space controlled by the Ministry of Services in Ontario is also approximately three percent. (22:36) The Committee wrote to over eighty real estate companies, developers, provincial real estate boards and associations for their views on a range of questions. They were asked what vacancy rate in space administered by Public Works they would consider to be an acceptable percentage of gross

---

<sup>1</sup> Canada, *Report of the Auditor General of Canada to the House of Commons—1975*, Ottawa, p. 81

inventory. The replies varied from a low of one percent to five percent. Both Campeau Corporation and A. E. LePage felt that five percent was an acceptable level. (20A:8) The Canadian Institute of Public Real Estate Companies suggested a figure of two to two and a half percent (21A:5) All respondents qualified their answers with the comment that the exact vacancy factor would have to be considered in the light of the quality, cost and location of the vacant space. (21:29)

There will always be some vacant space in the department's inventory. Swing space is needed for temporary accommodation during renovation or fit-up periods. Delays occur in preparing space for actual occupancy by client departments. Future expansion of the clients' activities is anticipated when space is allocated. Mr. Williams told the Committee "we would never set a department into space which was just adequate at the outset; there is always provision for expansion." (2:9) The department does attempt to sublet space needed for future expansion which cannot be utilized when vacancies occur in suitable locations and of sufficient size. But sometimes it is less costly to leave the expansion space vacant rather than incur the cost of moving departmental units into temporary locations.

The Committee recognizes that inefficient planning by client departments is a contributing factor when arranged space is not occupied. Public Works must, however, strive to improve the co-ordination of moves to reduce the need to pay for committed but unoccupied space. The Committee supports the directive by the Treasury Board in the recently issued Guide on the Administration of Office Accommodation which states:

DPW and departments shall establish in writing a firm time schedule by which DPW commits itself to making space available and a department commits itself to occupy the space. The reasons for, and the resulting costs of, any subsequent deviations from the agreed upon schedule shall be clearly identified in the records maintained by DPW.<sup>2</sup>

The Committee concluded that an overall vacancy rate comparable to the commercial rate of about three percent was tolerable if it is a true reflection of actual occupancy. However, user departments do not pay for the general purpose accommodation they occupy nor is their use of space monitored by DPW or Treasury Board. As a result present published vacancy rates are probably understated. The Committee is confident that if its recommendations on revenue dependency and increased monitoring of actual space utilization are adopted considerably more excess space will be found.

The Committee is aware that the massive relocation of public servants to Crown-owned buildings in Hull now underway will leave a number of leased offices in Ottawa empty. Moreover, this development coincides with a freeze on the growth of the public service instituted since the Hull relocation program was decided on so that the expected new growth which would have taken up the

---

<sup>2</sup> Canada, Treasury Board, *Guide on the Administration of Office Accommodation*, Ottawa, February 1977.

slack will not occur. Indeed, the department had planned this major move carefully and had taken some space in Ottawa on short leases of 5 years with the option for renewals one year at a time. It will be extremely difficult to place all the office space likely to be available in Ottawa during the next few years and in subletting unused space to which it is committed, Public Works will face severe competition. This situation is not one which Public Works could reasonably have anticipated and the Committee, therefore, recognizes that during the next few years the vacancy rate in Ottawa will rise.

### **Standards for Office Accommodation: Basis of Entitlement**

The Minister told the Committee that "the vacancy level is a reflection of inadequate standards, inadequate planning and lack of visibility of real property costs." (1:45) The Committee considered each of these causes both in relation to unoccupied space and to occupied but under-utilized space.

Until the spring of 1977 accommodation requirements of departments were based on 1974 guidelines issued by the Treasury Board to all departments. Entitlement for individual working units was calculated on the basis of the average salary level within the unit, which was then assigned space against a schedule presenting a minimum and maximum amount of usable square feet for each dollar salary range. A special audit by the Auditor General's Office challenged the relevance and adequacy of these 1974 guidelines and the adherence to them by departments and agencies. A survey of fourteen organizations outside the federal government by the Auditor General found that private sector space guidelines are based on the functional requirements of identifiable activities. This survey also showed that the provision of office accommodation for comparable levels of management in the federal government appeared to be overly generous. The Committee heard similar testimony from two major private companies, Bell Canada and the Royal Bank. The Treasury Board was told by the Auditor General that it "should consider...amending its office accommodation guidelines to reflect a more specific target of useable square feet per person."<sup>3</sup>

The development of standards of accommodation specifying space entitlement by precisely defined functional needs is a long-term goal of the Treasury Board. In 1974 guidelines were revised and issued to all departments in May, 1977 in the document, *Guide on the Administration of Office Accommodation*. The first directive relating to the determination and allocation of space requirements states "Office accommodation needs shall be calculated based on the requirements of the functions to be carried out." (Section 14) However, a further directive asserts that "Once the detailed office accommodation requirements have been determined, the department shall check whether these

---

<sup>3</sup> Canada, *Report of the Auditor General of Canada to the House of Commons—1976*, Ottawa, p.84

requirements exceed the allowable space permitted by the Office Space Control Standard”.<sup>4</sup> (Section 18) The Office Space Control Standard has not been set in terms of actual functions; it is based on the average salary of a given office population. A single figure in usable square feet is set against average salary ranges. Thus, effectively space standards are still set on the basis of average salary of the occupying unit rather than of the functions to be performed. If a function appears to require more space than the standard allows, permission to exceed the space control standard must be sought from Treasury Board.

The Committee reviewed the new Office Space Control Standards with representatives of client departments in order to ascertain their adequacy. They are regarded as unsatisfactory in setting the levels of entitlement because they are too rigid. The Department of Regional Economic Expansion, for example, observed that “the guidelines do not make adequate allowances for the inefficiencies in space utilization in buildings where floor configurations do not lend themselves to the most effective use of available space”. Another common objection was that the guidelines only applied to authorized man-years. The Department of Communications noted that there was “little flexibility to accommodate additional term employees, consultants or any reorganizational changes in the department”. It was generally argued that the Treasury Board imposed a severe restriction by not excluding internal access and circulation space, meeting rooms, public reception areas, registries and typing pools from the basic calculation.

**The space control standard should be recast to reflect reasonable space entitlement for actual functions carried out. The Committee supports the recommendation previously made by the Auditor General that the Treasury Board should promulgate revised guidelines as soon as possible “including instructions based on functional requirements and distinguishing between working, ancillary service and excluded space”.<sup>5</sup>** Although the functional approach is more complex, large private sector employers have adopted it and the Committee recommends its application within the federal government.

### **Enforcing Adherence to Guidelines**

Mr. Williams explained that Public Works does not enforce adherence to the Treasury Board guidelines on Accommodation.

Public Works can identify the space which is assigned to a department, but we are not in a position to say what the staff level is that the occupying department has in that particular space, nor the level of employees, that is, the salary level they are at, nor even the particular functions they are doing. (2:10)

---

<sup>4</sup> Canada, Treasury Board, Op. Cit. p. 5

<sup>5</sup> Canada, *Report of the Auditor General*—1976, p. 84



Unless additional accommodation is requested there is no subsequent review to verify the correctness of growth assumptions. Thus space which is vacant or under-used remains under the administration of the occupying department and agency and this space is identified as occupied by Public Works.<sup>6</sup>

The Auditor General has studied the degree to which space occupied by 18 departments and agencies fell within the existing guidelines. In 13 cases, the documentation was insufficient to make an assessment; in three of the five cases where information was available, the use of space exceeded the guidelines by more than thirty per cent.

The Auditor General recommended that Treasury Board should provide for adequate review and monitoring of all aspects of the administration of accommodation. All departments should maintain a space use record system containing all relevant information about manpower, space entitlement, actual use of space and changes in its use. Furthermore, all under-used accommodation should be identified and assessed for possible reclassification as vacant space.

The Committee pursued the question of the adherence to the guidelines with Treasury Board officials in the context of a discussion about a wider role in monitoring space by Public Works. The Committee was told by Mr. Lafontaine, Deputy Secretary, that "the onus is still on the department...first and foremost we want to hold the departments accountable." (9:24) Nevertheless, a more systematic review of the utilization of space is now required. Departments are at present required to make an annual report to the appropriate regional office of Public Works indicating their expected growth and their use of space by building within the region. **The Committee recommends that the annual report on space utilization take the form of an annual self-audit to ensure a comprehensive review of the use of general purpose accommodation by each department as it relates to the space standards. Where a department is occupying space in excess of the guidelines it should be required to notify DPW promptly.**

Adherence to the guidelines would be encouraged if the content of reports on space utilization were published. In addition to the record maintained in the occupying department, DPW should also maintain a record for each general purpose accommodation facility which would show the square footage of space per man-year which each department is utilizing. **The Committee recommends that the Main Estimates include a table showing the total square footage of general purpose accommodation per man-year which each department is utilizing with a comparison going back at least three years.**

---

<sup>6</sup> Ibid. p. 87

### Monitoring Space Utilization: A Wider Role for Public Works?

Although Treasury Board officials claimed that reporting requirements specified within the present guidelines should provide sufficient guarantee that space will be fully utilized by departments, the Committee was not convinced that this would happen. It, therefore, considered whether Public Works should be assigned a wider role in monitoring adherence to the guidelines by departments and if so, what the limits of that activity should be. The Glassco Commission Report suggested a role for DPW in the development of standards for space allocation. "Public Works because of its experience, should carry the main burden of fact finding and investigation for the Treasury Board."<sup>7</sup> Officials who administer accommodation programs for the governments of British Columbia and Ontario do this and more. The B.C. Buildings Corporation monitors the use of space in accordance with standards as a function of their internal audit. In Ontario there is co-operation between the Management Board and the Ministry of Government Services.

The Ministry of Government Services has a control function to ensure that Management Board policies and standards are followed, and must of course, at the same time, be fully involved in the policy development process. (22:27)

Traditionally, Public Works has not been involved in the monitoring of space even though the department has been the provider of accommodation and has expertise in realty management. A monitoring role in fact has long been considered by senior administrators of the department to be incompatible with the department's service role because they accepted the conventional view that service and control should be differentiated. Indeed, in his article in the journal *Canadian Public Administration* referred to earlier, H. R. Balls, Deputy Minister of Supply and Services, stated clearly that "The absence of any control by the service agency over the users...is fundamental."<sup>8</sup>

In April 1975 the Public Works representative disassociated himself entirely from the position taken by the sub-committee of the TB/PCO task force on the role of common service departments on a number of points including the view that Public Works should "be responsible for the enforcement of accommodation standards as promulgated by the Treasury Board."<sup>9</sup> In a position paper on the sub-committee report the Public Works representative replied:

This is diametrically opposed to the "common service" no control philosophy considered by DPW to be absolutely essential to its role and generally accepted throughout earlier discussions.<sup>10</sup>

<sup>7</sup> Canada, *Report of the Royal Commission on Government Organization*, vol. 2, "Supporting Services for Government," Ottawa, 1962, p. 53

<sup>8</sup> H. R. Balls, "Common Services in Government," *Canadian Public Administration*, Vol. 17, Spring 1974, p. 228

<sup>9</sup> Letter to the Chairman from G. B. Williams, November 15, 1976, Appendix A "Role Issues Common Service Departments Sub-committee Report on 'Charging for Services Provided by DPW'", p. 12

<sup>10</sup> Ibid. Appendix B "Role Issues: Common Service Departments 'Charging for Services Provided by DPW' Department of Public Works Position Paper Re Sub-committee Report," p. 11

This was also the view of Mr. Williams while he was Deputy Minister of DPW.

We can say how much space is available, but we do not want to have to go in and count heads and say how many people will occupy a certain area...We are merely a service department providing accommodation. We do not do the monitoring. (1:38)

Mr. John Mackay who succeeded Mr. Williams as Deputy Minister in January, 1977 has, however, initiated discussions with senior Treasury Board officials on the development of a monitoring system which would involve Public Works. (8:39) By the time the Minister met the Committee at the end of June, 1977 the outline of the system had taken shape. He told the Committee that the primary accountability of the user/occupant would be maintained, however,

...in partnership with the Treasury Board as the managerial arm of government, and in cooperation with the occupants and users of space and facilities, the Department of Public Works could accept the responsibility for ensuring the effective utilization of the resources it has provided, with special attention, in the first instance, to the use of office accommodation.

...The most appropriate role for DPW, as I see it, would be that of an operating arm and staff adviser to the Treasury Board; DPW would not have the authority to overrule unilaterally a client-department in the event that a difference of view arose concerning entitlements, requirements, timing, et cetera. The resolution of such differences would require a decision by the Treasury Board. (26:8)

### **Client Departments' Views on a Monitoring Function for DPW**

The Committee is aware that the addition of a monitoring function to the duties of Public Works would meet resistance. Client departments were almost unanimous in the view that Public Works is a service agency and should not have a control function. "Giving Public Works a stronger monitoring role may diminish the responsibility and effectiveness of departmental management in the administration of programs" was how the Department of Communications expressed a common view. Indian and Northern Affairs expressed its objections more strongly. "For DPW to act as monitor/policeman would interfere with and rapidly subvert their role as a service/support agency."

At the same time, some departments recognized the need for more effective monitoring practices and provided various suggestions for improving the procedure. The Auditor General was mentioned by some as the appropriate monitoring agent, the Treasury Board by several others. Departments such as Employment and Immigration and Communications advocated annual or semi-annual reports to the Treasury Board on space utilization. The Department of Transport proposed the establishment of a group at the Treasury Board. A similar unit was suggested to the Committee by the former deputy minister of Public Works, Mr. Macdonald. (7:28-9) The Department of Transport wrote:

We recommend that an audit unit be established by Treasury Board, staffed with former DPW representatives and former accommodation specialists from client departments who have had experience in the application of the guidelines. This group will ensure that: policies are being met; space is being utilized properly; and problems concerning the application of guidelines or policies are resolved.



### **The Role of DPW as Agent of Treasury Board**

From the testimony and from the written replies the Committee concluded that Public Works should be given a stronger role in monitoring as an agent acting on behalf of the Treasury Board. The ultimate authority would still rest with the Treasury Board which would arbitrate in cases where client departments found they were in disagreement with Public Works. DPW, as agent, would perform the monitoring activity while the managerial responsibility would rest with Treasury Board.

Two principal reasons can be advanced for giving Public Works a stronger monitoring role. First, the staff of Public Works are trained in space planning and related activities. It would seem more appropriate to utilize this existing expertise rather than to establish a separate audit group in the Treasury Board. Second, Public Works is regularly involved in the day-to-day operation and maintenance of office space. Officials of the department are already aware of many of the problem areas because of their proximity to the situation.

Effective utilization of the space assigned to departments can only be ensured by broadening the role of the Department of Public Works as a monitoring agent of the Treasury Board. The client departments should continue to have a basic responsibility to manage all of their resources, including real property, in order to achieve maximum use of them and individual departments should be held accountable for their use of space. Moreover, the decision to charge full cost is bound to enforce self-discipline and reduce the need for external monitoring, since departments will be paying for unused or under-utilized space. However, Public Works, as an agent of the Treasury Board, should take an active role in the actual allocation of general purpose space on the basis of functional requirements.<sup>11</sup> It should also have authority to approve deviations from the standard in unusual circumstances. Rather than alienating departmental managers, this additional role for Public Works should assist departmental managers in fulfilling their accommodation needs.

DPW would act as adviser to the Treasury Board in the development and interpretation of accommodation standards. As agent of the Treasury Board it would monitor the use of space by departments. The Committee was of the opinion that where DPW found that a department was exceeding its space entitlement, DPW could reclaim the excess space for other uses. However, if the Committee's recommendation for revenue dependency is adopted, this should provide sufficient incentive to a department not to retain excess space on which it would have to pay rent. Therefore the power to reclaim space would not be required. But information acquired through monitoring by DPW would remain an essential management tool and would be required by the Treasury Board to verify the effectiveness of revenue dependency.

---

<sup>11</sup> by definition the standard could not be strictly applied to single purpose accommodation where the requirement was unique



All applications for general purpose accommodation would be made by the user departments to DPW. DPW would assist departments to use space more efficiently and lend weight to departmental applications to Treasury Board for permission to exceed the standard. Indeed the Committee thinks that DPW in its capacity as agent for the Treasury Board should be empowered to authorize deviations from the space guidelines in certain cases. In deciding on such cases DPW would take into account such matters as the configuration of the building, the needs of the department and the requirements of the department for expansion space. All such decisions would be subject to review by Treasury Board which would have to approve the appropriation to the user department for the rent it would have to pay for the accommodation.

Where a user department sought to acquire or retain space in excess of the space guidelines and where DPW rejected the request, the department could appeal the decision to the Treasury Board.

The conclusion that Public Works should be assigned a stronger monitoring role follows from the Committee's basic recommendation that Public Works be designated as the central and primary provider of accommodation and related real property services for the federal government. The process of ensuring that accommodation is effectively utilized can surely be regarded as a related property service.

**The Committee recommends that the Department of Public Works be assigned a clearly defined role as the agent of the Treasury Board in the development of functional standards of accommodation. In this capacity as agent, Public Works should be required to certify to the Treasury Board that departments are entitled to space requested in accordance with those standards or to explain why it has permitted the standards to be exceeded, to allocate general purpose space to client departments on the basis of them, and to monitor the actual use of space thus occupied by departments and agencies to ensure its continued effective utilization.**

Space standards apply only to general purpose accommodation and, therefore, DPW would monitor only the facilities that it owns itself or leases from others. Single purpose accommodation is owned by the user departments and is not subject to space standards or monitoring by DPW. The control of the use of single purpose accommodation is dealt with in Chapter 14 **Federal Land Management Policy**.



---

## CHAPTER 6

---

### COMMUNICATION, CONFIDENCE AND CREDIBILITY: IMPROVING THE RELATIONSHIP BETWEEN PUBLIC WORKS AND ITS CLIENT DEPARTMENTS

There should be greater communication, confidence and credibility between client departments and DPW.

Letter to the Committee,  
Department of Secretary of State

The relationship between Public Works and its client departments is varied and complex: landlord and tenant, owner and builder, monitor and manager, service agency and program agency. The activity of every branch and every level of service of Public Works at headquarters and in the regions relates in some way to the requirements of its client departments.

As of March, 1976 Public Works provided office space and specialized accommodation for nearly ninety client departments and agencies, in 66.5 million square feet of Crown-owned property and 26.5 million square feet of leased space in 6,000 owned and rented individual premises.<sup>1</sup> In 1976-77, projects costing \$201 million were carried out by Public Works for other government departments and funded by them through the Working Capital Advance Account.<sup>2</sup>

The twenty-seven major client departments<sup>3</sup> of Public Works canvassed by the Committee were asked to respond to a series of detailed questions covering a variety of topics: standards and monitoring; cost-recovery and revenue dependency; federal land management; long range planning; design and construction; and tenant services. Some customer dissatisfaction was inevitably voiced about every aspect of Public Works' activities and has been frequently referred to in chapters of this report.

In addition to these specific topics, client departments were also asked to comment on how their working relationship with Public Works could be improved. The improvement most frequently suggested was for a more structured consultation process. Many departments apparently feel that communication between Public Works and its clients could be more effective if it were channelled through what was described in the response of the Secretary of

---

<sup>1</sup> Canada, Department of Public Works, *Annual Report 1975-76*, Ottawa, p. 11

<sup>2</sup> Canada, Department of Public Works, *Annual Report 1976-77*, Ottawa, pp. 86-88

<sup>3</sup> Note: Table 3 on p. 65 illustrates the major client departments of Public Works who are located in office accommodation paid for by Public Works.

State as "someone who in private industry is known as a 'customer's man' who would be the liaison person within Public Works with a particular client."

### **DPW Experience with a Single Client Contact**

For a few years Public Works did have on the strength of the Deputy Minister's office a small group of account executives who worked in association with a Customer Service Bureau. This group, which was designated as the point of contact for client departments, was formed early in this decade in anticipation of the expected adoption of revenue dependency. The decision reflected the department's sensitivity to the fact that its clients had no alternative and therefore could not express dissatisfaction by refusing to use Public Works' services.<sup>4</sup> The Departments of External Affairs and Transport told the Committee that this contact had proved useful. A Transport official testified that this unit "not only helped in resolving problems but it put us in contact with the responsible authorities in the Department of Public Works—at least one authority." (9:12)

According to Mr. MacKay this group was disbanded in 1975. He explained that having no program responsibilities and no direct knowledge of work being performed on behalf of a client department, the group served only as a post office for the client. Rivalries were created within Public Works between the spokesman for the client and the individual doing the work. (26:15) The responsibility for keeping the client informed has in practice now been thrown back on those branches actually responsible for doing the job.

### **Provincial Arrangements for Client Consultation**

In the smaller provincial accommodation programs it has apparently been possible to designate a 'customer's man'. The Committee questioned the representatives of the B.C. Buildings Corporation and the Ontario Ministry of Government Services about their arrangements. The B.C. Buildings Corporation established positions for four client co-ordinators each to be responsible for maintaining contact with an assigned group of client departments, and for interpreting their accommodation needs in both the short and long term. Experience in space management or planning would be required for appointment to these positions. In Ontario, the Ministry of Government Services has senior officials known as project executives who are responsible for liaison between the Ministry and one or more client ministries. Experienced professional architects or engineers fill these positions. Their duties combine on-going client contact with actual management of individual client projects including negotiations with architects, contractors and consultants. They have authority to make cost changes within the over-all budget for projects.

---

<sup>4</sup> Walter Baker, "Organization Under Stress: Reorganizing the Federal Department of Public Works," unpublished manuscript



### **Available Channels of Communication with Public Works**

In taking the decision to eliminate the accounts executive group, DPW argued that the scale and complexity of the federal accommodation program coupled with the regional organization of Public Works and many of its clients make the single designated client contact in Public Works difficult to organize effectively. In its place it has substituted two principal communication channels available to client departments. The Accommodation Facilities Development directorate "acts as the prime contact between the department and the client." This unit has complete responsibility to follow through a client's request for new accommodation from the planning and identification stages through the approvals process and "for monitoring of subsequent stages of the project delivery system."<sup>5</sup> Counterparts of the headquarters Facilities Development officers are located in each regional office. The Property Administration directorate at headquarters and its corresponding unit in the regions has similar responsibility for existing facilities—leasing, fitting-up, tenant services and property management. This is where most of the problems and, therefore, most of the day-to-day client contact occurs. Each of these two directorates is staffed by officers who are assigned responsibility for individual departments. In this sense they seem to operate as specialized account executives.

Communication with client departments has also been encouraged through the use of inter-departmental committees set up with those departments having extensive long term building programs such as the Post Office and the Canadian Penitentiary Service. DPW claimed such a committee is important in the planning stages because it permits the requirements perceived by the client to be tested against Public Works expertise and compromises to be agreed upon before financial commitments are made. (6:10) Other committees or task forces have co-ordinated the complicated moves of large departments like Supply and Services to Hull.

### **Better Consultation Needed**

Responses to the Committee's enquiries suggest that this new consultation process has been welcomed by those departments with experience of it. The Department of Fisheries and the Environment wrote the Committee that "there is every indication that a new attitude is being developed within DPW towards dealing with a client which, if fostered, would improve the efficiency of the organization." The Committee noted that there are now many areas where the channels of communication have been opened. However, it is concerned by Public Works' clear preference for the use of inter-departmental committees for this purpose. The strong call from many client departments for a single designated contact arose from real frustrations in communicating with working

---

<sup>5</sup> Canada, Department of Public Works, *Annual Report 1976-77*, Ottawa, p. 13

levels in Public Works with enough authority to make decisions. The Minister recognized the problem:

It would seem to me that we are falling down in communicating. Obviously it is a breakdown in communications with our users. It seems to me that this, then, imposes a strong obligation on us to improve that relationship. (26:15)

The adoption of the central recommendations of this report which would make Public Works revenue dependent and the sole source for accommodation and related real property services will increase the pressure to improve the consultation process. Departments will wish to discuss rents and service charges, and can be expected to be concerned to get value for money. Effective consultation will be critical if revenue dependency is to succeed. Lacking competition, the condition which forces private developers to combine flexibility with efficiency, DPW will have to be especially sensitive to client department concerns. From testimony which the Committee received from the Post Office Department, the need may be greater in the field. Mr. R. W. Rapley, Director General, Engineering and Technical Services, speaking of relations with DPW headquarters, reported that:

in general our working relationships are very good. They are very cooperative...we do not ask and would not wish to have any basic change in our present working or organizational relationship. (10:38)

But, later in the meeting, while repeating that they had no problems at the "upper levels", he observed that service in the field was often inadequate.

When one gets further down into the regions and right down into the field itself, it is at that level that we are more likely to find the attitude from the Department of Public Works: 'You tell us what you need and we will provide it. How we do it and how much it costs is our concern and not yours.' (10:42)

If DPW is going to be successful in providing all general purpose accommodation and in providing the design and construction of all single purpose accommodation, it will have to give the user departments outstanding service. The model which Public Works will have to emulate is that of the successful developer, who has discovered that in the long run he must adapt to the client's needs. The relationship between a user department and DPW must be a close one commencing at the planning stages. DPW must seek to understand the department's needs and then act to meet those needs within reason. DPW must keep the user department fully informed during the process of providing accommodation and must try to be reasonably flexible if the client's needs change during the process.

User departments for their part should refrain from duplicating DPW expertise on their staff and should seek instead to be informed clients. That is, clients who can clearly state their needs to DPW and who can work cooperatively with DPW in the process of meeting those needs. It is not necessary for user departments to have their own realty development personnel to fulfill this obligation. Persons who are knowledgeable about the user department's operations and objectives, and who are articulate and cooperative are preferable.

**When DPW becomes revenue dependent and the sole source for accommodation and related real property services it will have to improve its consultation and cooperation with the client departments. Therefore the Committee recommends that DPW officials in the Accommodation Facilities Development and the Property Administration directorates both at headquarters and in the regions should have impressed upon them their personal responsibility for assisting the client departments which they in a sense represent. The Committee further recommends that these directorates be given the authority to act effectively on behalf of their clients and that DPW continue the practice of assigning officers of the directorates responsibility for individual departments.**

If DPW becomes the central realty organization there could be a tendency to make realty management an end in itself. DPW and Treasury Board should clearly understand that efficient realty management is an objective, but that it must be balanced with the satisfaction of the user department's own objectives.





## **PART II**

### **CANADA'S LARGEST CONSTRUCTION AND PROPERTY MANAGEMENT AGENCY**



## HOW THE DEPARTMENT OF PUBLIC WORKS IS ORGANIZED TO FULFILL ITS OBJECTIVES

Mr. G. B. Williams, then Deputy Minister of Public Works, concluded his description of the organization of his department at the first hearing with the observation that “in general terms, the department’s organizational structure is a function of the nature of its work and the way it has to be carried out.” (1:10) As of March 31, 1977 a total of 9,413 man-years had been authorized to staff this organizational structure.<sup>1</sup> The volume of the work carried out by this staff supports the claim that Public Works is the largest construction and property management agency in Canada. The department passes through its books approximately \$975 million annually of which \$200 million is for construction projects and contracts for operation and maintenance carried out by DPW but paid for by other government departments. (1:15)

Another former deputy minister put this volume of work into perspective in his testimony to the Committee. In relation to the private real estate sector in Canada he observed that “the scale of operations in the Department of Public Works is enormously greater than anything in the private sector. You could take the ten top real estate companies, add them up and they would be less than 20 per cent of the numbers of the department.” (7:47) A representative of one of those private sector companies<sup>2</sup> commented “the task they have in administering 80 million square feet of space is monstrous.” (21:50)

### Evolution of the Present Organization

The stated objectives of the Department of Public Works—realty management and service—are reflected in the organization of the staff of the department. The Glassco Commissioners recommended a new role for the department as a common service agency with primary responsibility for realizing the full potential from the federal government’s widespread holdings of real property, as well as a reorganization which would put into effect a “substantial delegation of authority to responsible officers in the field.”<sup>3</sup> The Commissioners warned that this reorganization should be undertaken with care. “The impor-

---

<sup>1</sup> Letter to the Chairman from L. J. Brunette, Acting Director-General Finance, July 26, 1977

<sup>2</sup> R. A. Greiner, Vice-President of the Canadian Institute of Public Real Estate Companies

<sup>3</sup> Canada, *Report of the Royal Commission on Government Organization*, Vol. 2, “Supporting Services for Government”, Ottawa, 1962, p. 67

tance of achieving finally a proper organizational structure must not be minimized but the dangers of allowing matters to get out of hand must be guarded against.”<sup>4</sup>

In announcing that John A. Macdonald had accepted the appointment as Deputy Minister in December 1969, the Prime Minister told the press, “the government of Canada is the largest land holder in Canada and new concepts of administration have to be brought in there.” Mr. Macdonald and his Minister had, he said, been asked “to embark on...a very fundamental revision of the departmental structure.”<sup>5</sup>

Project Renewal was the name given to this fundamental revision. It retained the existing structure of a headquarters with six regional offices which were part of an earlier 1966 reorganization plan developed by outside consultants. Project Renewal was developed by DPW staff and was based on extensive discussions about every activity carried out by the department and on an analysis of why previous management plans had proved to be inadequate.

Implementation of Project Renewal was prolonged by the need to secure Treasury Board authority for both the proposed innovative organizational structure and the new classifications required to support it. This process took over a year. Complete approval was received by July 1972 and the plan was put into effect in January 1973. With a few adjustments after 1975 by deputy ministers who have succeeded Mr. Macdonald, Project Renewal established the current organizational structure of the department.

### **The Present Organization of DPW**

Under the present organization, DPW's operations are decentralized as much as possible to the six regional offices and approximately 87 percent of the department's total manpower resources are allocated to the regions (1:10). Three functional areas of responsibility are assigned to the following branches: Departmental Planning & Co-ordination, Design & Construction, and Realty. The management support groups include the Finance & Administration branch. The regional Directors General report directly to the Assistant Deputy Minister (Operations). (See Organization Chart p. 53). These same functional divisions exist at both the headquarters and regional levels. The regional manager of each functional branch has a line relationship to his regional director general as well as a functional relationship to headquarters supervisors. The administrative responsibilities of a director general for his region can be equated with those of the deputy minister in relation to the whole department.

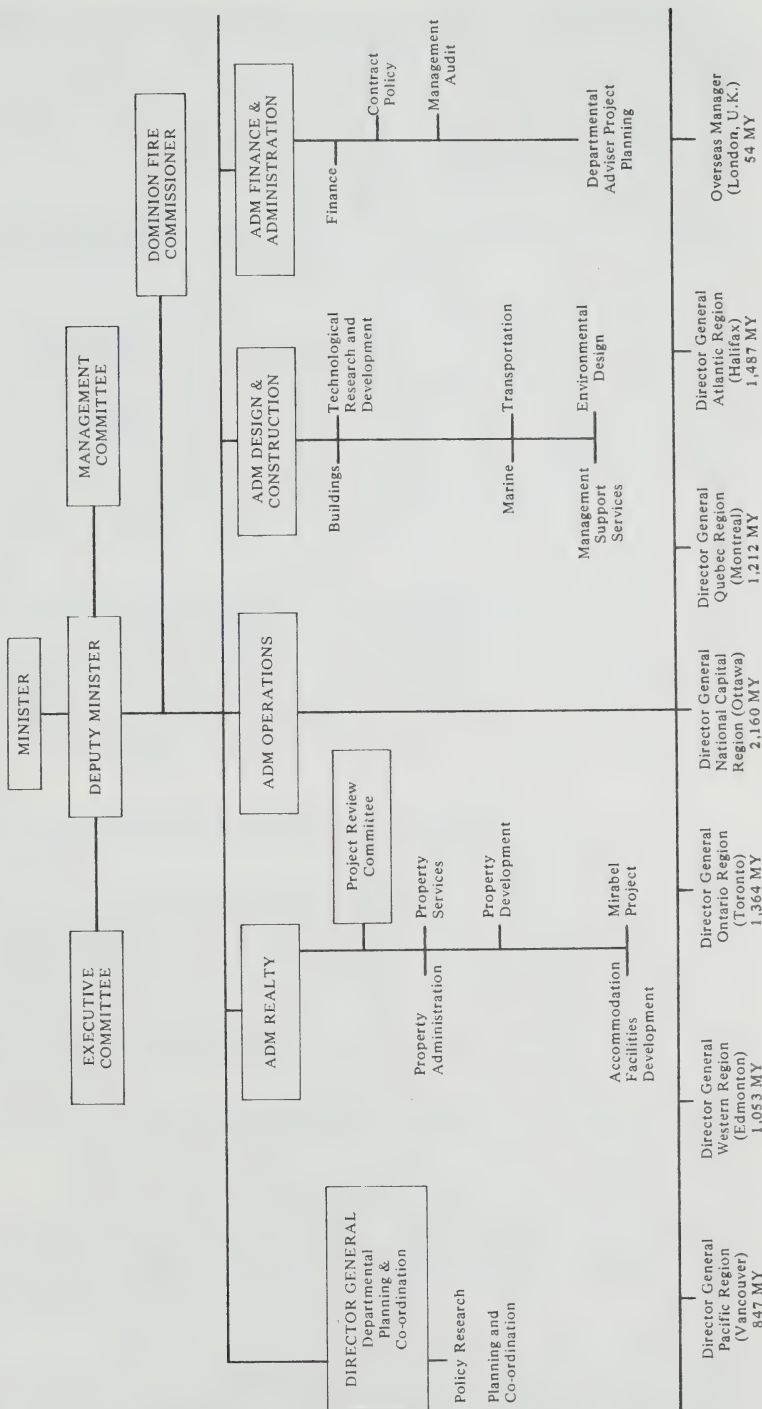
---

<sup>4</sup> Ibid, p. 68

<sup>5</sup> Transcript, Prime Minister's Press Conference, December 22, 1969



DEPARTMENT OF PUBLIC WORKS  
**ORGANIZATION CHART OF MAJOR FUNCTIONAL AREAS OF RESPONSIBILITY**  
(simplified)  
(as of March 31, 1977)



Co-ordination of activity is maintained through two committees at headquarters which have regional counterparts, the Management Committee through which information is exchanged and the Executive Committee which is the core policy and operations control committee. The membership of the latter committee includes, in addition to the deputy-minister, the department's most senior officials responsible for the main functional areas.

The present organization differs in many ways from that of the 1960s. In the past, operations were directed from Ottawa and focussed particularly on the Design & Construction activity directed by the two officials named in the Public Works Act, the Chief Engineer and the Chief Architect. Since Project Renewal, DPW's service role as the government's designated real property agency has been specifically identified and placed under the direction of an Assistant Deputy Minister Realty to whom four major divisions report—Property Administration, Property Services, Accommodation Facilities Development and Property Development. A measure of the prominence given to the realty management function is seen in the assignment to it in 1976-77 of 5,660 man-years or over half of the department's total authorized allotment of 9,413 man-years.

Design & Construction remains a core function of the Department of Public Works. Of the department's authorized man-years, 1,917 or 20.3 percent were allotted for this activity. This staff is almost totally employed in the regional offices where they are directly concerned with all capital projects carried out in DPW in the Accommodation, Marine and Transportation programs as well as those for other government departments.

The new departmental organization also recognized the need for an independent planning unit, to support the integrated Realty branch as well as the Design & Construction branch. The Director General, Departmental Planning & Co-ordination, is a member of the Executive Committee at headquarters. In the regions the collection of information required for project planning is a responsibility of the Program Planning & Co-ordination branches.

Finance & Administration is the major management support branch. This branch makes forecasts of the resources required by the activities of the functional branches for the Main Estimates submission to Treasury Board and monitors the costs and contracts relating to each individual capital project.

### **The Relationship of the Regional Offices to Headquarters**

There are six DPW regional offices located in the five major geographic regions—Atlantic (Halifax), Quebec (Montreal), Ontario (Toronto), Western (Edmonton), and Pacific (Vancouver) and one for the National Capital Region (Ottawa).<sup>6</sup> Local offices are also maintained as operational units of the

---

<sup>6</sup> Visits were made to four of these by individual Committee members and staff. A sub-Committee spent two days in the Edmonton office.

regional headquarters in other cities in four of the regions. Of the six the National Capital Region is by far the busiest in terms of volume of activity and numbers of staff. Close to fifty percent of DPW's inventory of space is located in this region. Mr. Williams told the Committee that the regional offices "largely mirror-image the headquarters organization in that they are, in a sense, independent operational departments of Public Works but they are under the policy direction and control of the headquarters organization." (1:25) An Assistant Deputy Minister Operations is the channel through which regional Directors General report to headquarters.

The present organization of Public Works gives the regional offices a substantial degree of autonomy in operations. Within the limits set by the Treasury Board in the contract regulations, the regional offices can now act independently to arrange leases, negotiate contracts and supervise construction. Under the new Federal Land Management policy, regional offices have a significant role in relation to the disposal of surplus property and the administration of the regulations arising from that policy. Each region may initiate capital expenditures up to a value of \$1 million and need not seek Treasury Board approval for projects costing under \$500,000. When Treasury Board submissions are required, they are prepared in the region and forwarded to the Board through DPW Headquarters. Finally, officials in the DPW regional offices now have authority to deal directly with local regional representatives of user departments to plan and design local facilities of a certain value. However, there were complaints from client departments that this delegation of authority had not gone far enough.

### **Delegation of Authority Within DPW's Organization**

The Minister in his opening statement acknowledged that the most frequent and legitimate criticisms directed at the department "are couched in terms of individual transactions or in relation to one isolated element in a multi-faceted action...Problem solving at the transaction level is not enough...If real and permanent solutions are to be found we have to go beyond the transaction level to search out and attack the more fundamental levels of difficulties." (1A:2)

One of the fundamental difficulties is rooted in the decision of the department not to delegate sufficient authority to operational levels within the department which deal with individual transactions between DPW and its clients. The attention of the sub-Committee which visited the Western Region was drawn to the inconvenience caused by the lack of authority given to regional branch offices set up in some cities in the Atlantic, Ontario, Western and Pacific Regions.

DPW branch offices were deliberately established in the reorganization plan to be centres of operations and not of decision making to avoid unnecessary fragmentation of authority and responsibility. While this suits Public

Works administratively, it prevents branch offices from responding directly even to small requests from client departments without specific authority from regional headquarters. In a region as widespread as the DPW Western Region, the branch offices in Winnipeg, Saskatoon and Calgary frequently deal with the regional headquarters of client departments, but are required to get authority to proceed from the DPW Edmonton office.

A related objection was made by clients within the relatively confined boundaries of the DPW National Capital Region which is too small geographically to have branch offices but has ten districts to facilitate the management of its large inventory of Crown-owned and leased space. The Department of Transport amongst others felt that DPW property managers in these districts should be given more authority to react to their requirements. (10:12)

Authority to approve work to be carried out by Public Works for client departments is controlled, as Mr. Mackay indicated, by government regulations and by the Financial Administration Act (Sections 25, 26 and 27). An internal DPW document dated May 31, 1977, states that maximum implementation authority and signing authority has been delegated to both regional Directors General and regional managers "to reflect the Department's desire to obtain speedy performance within a responsive organization". However, further delegation is not being considered. "Delegation of full delegated signing authority to a subordinate should not be considered other than in exceptional situations."

### **Fragmented Decision Making**

Another problem is created by the number of interlocking functional directorates within Public Works, each of which must be satisfied that they have had an opportunity to react to individual proposals. Even small projects, which DPW classifies as costing less than \$100,000, could involve the Finance, Planning and Design & Construction branches. The Realty branch is now also routinely consulted.

The many levels of authority are a consequence of the size and complexity of Public Works operations. The department is not unaware of this management weakness. As a start, the Management Consulting unit at headquarters recently completed an internal analysis of the complicated approvals process to try to reduce the time required to pass client requests through each stage. This is a problem which demands attention and many of the Committee's specific comments and recommendations in subsequent chapters relate to it.

### **Conclusion**

The present organization of the department has now been in place with minor alterations for five years. Given the pressures exerted by the demand for



additional space for the expanding public service, the reorganization probably went too far too fast. Adjustment to the reorganization was further complicated by other changes, such as the introduction of project management and the project delivery system which are fully discussed in Chapter 9.

The period of adjustment appears to be over and the organization and the systems instituted to improve operational procedures have strengthened the ability of DPW to meet its objectives of realty management and service. Given the enormous size of the department's operations, and the added complexity of working within a governmental environment, there are limits to what can be done to simplify its internal structures.

However the present organization of DPW is based on a plan that was developed several years ago. Management techniques have improved in that time. The decentralization of DPW was a major step forward. It should now be possible to further refine the organization of DPW to overcome the delays in making decisions caused by the problem of too many levels of authority. This will become much more important when revenue dependency is introduced. Under revenue dependency DPW will have to operate within the limits of income derived from rents and services which are priced competitively with the private sector. Its decision-making process will have to be as efficient as that of a well run private developer otherwise DPW's overhead will be too large to live within its income.

**The Committee recommends that in preparation for the introduction of revenue dependency DPW re-examine its organization in order to make it less complex. The objectives of such a reorganization should be to preserve the present decentralization of decision-making while reducing the number of levels of authority so that the present complicated approvals process is simplified.**



### PROBLEMS IN FORECASTING DEMAND FOR DPW SERVICES

For a realty operation the size of Public Works, planning is a central and critical function and is now undertaken at Headquarters and in each of the regions. Although there had always been a planning unit in the department, Mr. Macdonald told the Committee that there had been a failure over the years "to plan requirements on a comprehensive and long-term basis. Department needs were dealt with on an *ad hoc* basis..." (7:50) Since the establishment of the headquarters Departmental Planning & Co-ordination branch and the regional Program Planning & Co-ordination branches, new procedures to define future demand for Public Works Services have been developed and implemented.

The regional Program Planning & Co-ordination branches are responsible for the planning and development of individual accommodation projects up to the point of formal approval by the Project Review Committee. Accommodation planning studies, mainly of metropolitan areas, have been made by units of these regional branches for several years. They have also been assigned responsibility for planning future land use as required by the new federal land management policy.

#### **Long Range Planning: The Department Planning & Co-ordination Branch**

Since April 1, 1976, the headquarters Departmental Planning & Co-ordination branch has contained two directorates, Policy Research and Planning & Co-ordination. Long-term planning of the department's total capital construction program is the major function of this branch. It is responsible for the collection and collation of data required to keep the department's projections of the future demand for space up to date. This accommodation plan is prepared for a five-year period in conjunction with the program forecast required by Treasury Board to support the annual Main Estimates submission. Mr. D. Hartt, Director General of the branch, summarized this activity in his testimony.

The fundamental thing is getting the information and managing it. That is what our whole project is about, the managing of information. You have to get it wherever you can. We have lots of ways of getting information. We do not get it all as early as we would like. (8:30)

The Committee reviewed the varied sources of information on which the five-year forecast is based. A basic factor is the anticipated growth of govern-

ment activity. Mr. Hartt testified that "The information on government growth comes from a number of sources, including the Treasury Board, Cabinet, clients and our own assessment." Asked by a Committee member where the department got its information about the availability of cash to finance future capital projects he replied "from Treasury Board, from Cabinet and from reading the newspapers." (8:37) At an earlier hearing another departmental witness referred to the department's own process of assessment which performance includes a certain amount of second guessing. "Much of this is gut feeling and eye-balling" he told the Committee (4:37).

The Department of Public Works cannot be expected to forecast broad policy changes with major effects on accommodation needs. A recent example of such a change was the sudden decision by the government in 1975 to cut back drastically on the growth of the public service. Such a decision affected the long range plans of virtually every department of government to a degree which could not have been anticipated. Unfortunately, Public Works will always have to adapt as best it can to such policy changes.

While he admitted that "there are always surprises", Mr. Williams argued that forward planning by the department was based on experience as well as information.

We do have a forward plan on the basis of what we know. Then we carry on a process of assessing and discounting for things that will not happen in the light of historical experience and our perception of what the state of the economy and other factors will be as we proceed into the future. (4:43/44)

### **How DPW Collects Information about Client Requirements**

The Department of Public Works has difficulty in preparing its five year forecasts because it is not informed about the accommodation implications of programs being planned by client departments until they reach an advanced stage of development. This is a continuing and hard problem to solve. The Minister made this point in his opening remarks to the Committee.

...it is a truism to say that because of the nature of our work, our planning can be only as good as that of our customers. We believe that we have a responsibility to assist our clients in this respect. To that end considerable work has been done within the Department towards the introduction of more formalized and structured planning systems which will improve the "front-end" of project development and will prevent the making of premature commitments before all the relevant facts are known and analysed. By incorporating the collection and refinement of user requirements into these systems, we hope to be able to lead client departments into earlier and more thorough pre-project analysis, thereby improving the quality of our response. (1A:7/8)

At a later hearing Mr. Williams explained why it is imperative that Public Works be given information about client accommodation requirements well in advance, particularly about special purpose construction. There is a limit to how much capital construction Public Works can carry out in any given year with its existing capacity. To increase the rate of capital expenditures on accommodation by \$100 million in one year requires two or three years



advance planning (4:43). The earlier DPW is brought in on a client's plans "the better the solution we can make not only in relation to that department but in tying it in with something somebody else wants." (4:43)

One source of information is the Main Estimates submissions made by client departments. Mr. Williams explained that in their program forecasts, client departments project the dollar requirements and the man-year requirements for their programs for five years ahead. (2:18) Because Public Works is dependent on annual appropriations, it must also submit a program forecast. The resulting anomaly was described by the DPW Director General Finance and Administration:

We find ourselves in a situation in which other government departments and agencies are putting up plans and programs to the Treasury Board Secretariat for approval and we at the same time are putting forward our plans, being totally unaware of the possible growth, expansion, decentralization of these other departments and agencies. Therefore, to a large extent, our planning is based on guidelines, of which we are aware through Cabinet decisions, discussion with the Treasury Board Secretariat, or by direct information from Treasury Board officials as to what may be the growth of the public service. (4:37)

Public Works does try to maintain contact with client departments in order to gain prior knowledge of a probable demand for accommodation. Officials from the Realty Branch are assigned the duty of establishing a liaison particularly with those departments which tend to have a need for special purpose accommodation "just to keep in with their planning process." (1:33)

Projections of future demand are also attempted beyond the five year planning cycle. Client departments have periodically been asked by DPW to assess their future accommodation needs in communities or metropolitan centres in a given geographical region for forecast periods of between five and fifteen years. At least one department, Agriculture, wrote to the Committee that although "the process is admittedly necessary we find it repetitive and somewhat unrealistic."

Contact at the regional working level is a continuing source of information about probable local expansion, but some departments are more forthcoming about their future plans than others. Mr. Hartt explained:

It is not that we are never in; it is just that we are not always in. We are in at the early stage at least half the time. We hope we would be in 100 per cent of the time. (8:30)

### **How DPW Could Overcome Problems in Forecasting Demand for Services**

Public Works will probably always have to rely to a certain extent on informal liaison with its clients to collect information about possible demands for additional accommodation. Indeed this system of picking up information was characterized by a Committee member in the hearings as DPW's CIA approach (6:28, 8:30/37).

The present situation is unsatisfactory and the Committee explored alternative ways to overcome the difficulty. The most practical approach would be

for DPW to appoint liaison officers who would have complete and continuing access to the long range plans produced by the planning units within each department and agency. There are, it is true, occasions on which departments may wish to keep their plans confidential until Treasury Board approval is received and they may be reluctant to enlarge the circle of persons in the know. To overcome the client department's concern, the DPW planning officer chosen for this essentially confidential assignment would have to establish his reputation for discretion. However, such an arrangement would have obvious benefits and therefore departments would find it in their interest to collaborate.

The Committee considers it essential that Public Works receive information about future accommodation requirements as early as possible, particularly about impending single purpose construction projects paid for by client departments. This is because the DPW Design and Construction process requires a lead time of up to three years to undertake such a project. Continuous liaison between DPW's planning staff and accommodation planning officials in client departments should be fostered in every possible way.

The Committee is confident that client departments, who as indicated in Chapter 6 have themselves demonstrated a strong desire that their communication with the Department of Public Works should be improved, will agree that this informal exchange of information must be supplemented. The appointment of a DPW planning officer to maintain continuous contact with the long-range planning units in each department can bring real benefits in improved service to both client department and DPW. It is in the interest of client departments to co-operate with this proposal.

**The Committee recommends that DPW assign planning officers to maintain continuous contact with long-range planning units in each department and agency in order to gain advance knowledge of possible new accommodation requirements. Treasury Board should also issue a directive to each department and agency making it mandatory for them to provide the information on their plans to the planning officers so that DPW can more accurately determine their accommodation requirements.**

### **A Role for the Treasury Board?**

A supplementary approach considered by the Committee involved improved communications between the Treasury Board and Public Works. Witnesses testified that at present, except for major programs, there is no direct communication between the Treasury Board and Public Works about the accommodation implications of decisions it makes on submissions from policy departments. For long-range planning purposes DPW officials explained that they only need advance warning that there will be a new program which

will require more staff, or staff in a new location where the department did not previously have an office:

...the main question is not whether a building is to be built or leased; it is the actual requirement for accommodation itself that matters. The client department is looking for office accommodation and whether we build it for them, or lease it for them, or purchase and renovate it, might be considered quite incidental, in that context. (6:28)

If DPW planning officers in whom client departments have confidence are appointed, they should receive this kind of information. However, in his 1976 Report, the Auditor General suggested a method which would provide an alternative source.

Departments and agencies should be required to include in their annual Program Forecast and Main Estimates submissions, or in a separate but related submission, an all-inclusive forecast of accommodation requirements based on projected manpower and on entitlement in accordance with the promulgated guidelines.<sup>1</sup>

After being assessed and tabulated by Treasury Board staff submissions of this description would provide DPW with a bulk forecast on which to base projections of need for accommodation. Since no individual requests would be identified at this stage the Treasury Board would not be committed to give future approval to any project.

The development and implementation of the policy to decentralize working units of many departments from Ottawa to other regions provided a precedent for this kind of cooperation between Treasury Board staff and Public Works. DPW was brought into the planning of these transfers at the very beginning. Mr. Hartt assured the Committee that DPW had "no problems at all with that whole program. We had information on (it) as early as we could expect." Public Works was told both the proposed locations and the approximate requirements before the final decisions were made and announced. (8:30)

If Public Works is to become a truly effective real property manager of federal properties, it must have the confidence and support of the Treasury Board in many ways. Any information received from other government departments in their annual program forecasts relating to the demand for accommodation should be shared with Public Works.

**The Committee recommends that the Treasury Board provide the Department of Public Works with an annual assessment of future demand for accommodation based on a three-year forecast submitted by departments and agencies. Such forecasts should include projections of future man-year requirements for general purpose accommodation and for proposed new or extended programs which would require single purpose accommodation.**

---

<sup>1</sup> Canada, *Report of the Auditor General of Canada to the House of Commons for the Fiscal Year ended March 31, 1976*, Ottawa; p. 84





TABLE 3  
AMOUNT OF SPACE OCCUPIED BY CLIENT DEPARTMENTS OF DPW  
AS OF MARCH 31, 1977<sup>1</sup>

Department	Number of Square Feet
Post Office	17,383,642
Manpower & Immigration	3,838,621
Revenue Canada—Taxation	3,405,475
National Defence	3,055,651
Environment	2,759,658
Agriculture	2,735,807
Revenue Canada—Customs & Excise	2,347,775
U.I.C.	2,312,036
National Health & Welfare	2,205,690
Public Works	2,181,190
Transport	2,099,854
Energy, Mines & Resources	1,895,610
Indian & Northern Affairs	1,791,447
Statistics Canada	1,623,007
Royal Canadian Mounted Police	1,622,574
SSC (Supply)	1,436,279
SSC (Services)	1,432,270
National Museums	1,307,770
Public Service Commission	1,277,216
Public Archives	998,271
External Affairs	853,568
National Arts Centre	851,387
Secretary of State	828,776
Consumer & Corporate Affairs	816,056
House of Commons	718,379
Industry, Trade & Commerce	669,640
Veterans Affairs	667,939
National Film Board	569,771
SSC (Printing)	501,382
Regional Economic Expansion	498,075
Communications	416,899
National Research Council	342,981
Justice	312,244
National Library	287,862
Labour	276,980
Treasury Board	275,964
Canadian International Development Agency	264,508
National Parole Board	248,928
Solicitor General Secretariat	238,403
Privy Council Office	236,716
Emergency Planning Canada	229,427
Federal Court of Canada	211,062
Canada Pension Plan	210,120
Canadian Transport Commission	208,717
Finance	208,055
Anti-Inflation Board	189,056
Royal Canadian Mint	164,816
Canadian Penitentiary Service	163,140
CRTC	159,745
Canadian Grain Commission	148,816
Bureau of Staff Development & Training	133,930
Secretary of Governor General	127,660
SSC (Exposition Division)	118,709
Senate	118,339
National Energy Board	103,459

<sup>1</sup>Only those departments and agencies occupying over 100,000 square feet are listed

Source: DPW, May 16, 1978

TABLE 4  
COMPARATIVE SUMMARY OF RENTS PAID FOR LEASED ACCOMMODATION, 1971-1977

Office	1977	1976	1975	1974	1973	1972	1971
National Capital	63,128,331	60,146,616	43,153,474	38,802,288	35,107,176	29,125,031	22,925,943
Atlantic	10,532,525	9,279,033	6,958,557	5,057,689	3,519,479	2,828,059	2,178,570
Quebec	24,696,350	20,108,949	15,836,410	12,976,415	10,005,417	8,048,709	6,701,660
Ontario	21,350,147	19,608,098	15,585,693	12,288,825	9,762,682	8,397,485	7,031,578
Western	17,592,404	13,738,879	10,501,897	8,644,746	6,545,881	5,554,163	4,390,902
Pacific	14,094,594	11,238,769	8,868,222	6,210,903	4,595,201	3,772,358	1,890,812
Headquarters	3,355	2,606	8,256	1,688	—	—	—
Other	655,241	725,076	486,746	662,823	760,198	234,613	222,314
TOTAL	152,052,947	134,848,026	101,399,255	84,645,377	70,296,034	57,960,418	45,341,779

Source: Annual Reports.

---

## CHAPTER 9

---

### HOW PUBLIC WORKS MEETS THE DEMAND FOR ACCOMMODATION: THE LEASE, PURCHASE, BUILD OPTIONS

Within the Department, the improved planning to which the system is dedicated will give us more assurance of the rightness of our decisions when faced with the "lease-purchase-build" options...(1:48)

#### Opening Statement by Honourable Judd Buchanan

The exploration of alternative solutions to accommodation needs of client departments is DPW's major challenge as the government's realty agent. A departmental paper describes the possibilities.

The space need can be met by new Crown construction, by purchase of an existing building, by additions, renovations, leasing, build-for-lease, lease-purchase or any combination of these. The need can be met on an individual basis or it can be combined with requirements of other departments. The detailed location, timing, size, design, quality and cost must be decided.<sup>1</sup>

The Minister pointed out in his opening statement that there is "no universal one right way" to meet the demand for accommodation. "Each case has unique characteristics of need, opportunity, timing, location, price, social impact and so on." (1A:4) Mr. R. L. Arsenault, Deputy General Manager, Real Estate Resources of the Royal Bank made the same point based on his experience outside government.

...there are advantages as well as disadvantages to any method of acquisition and financing. Each situation is assessed on its own merits in relation to economics, including return on investment, potential risk, inflation and deflation calculations, project size, flexibility, market conditions, tenure, local considerations, et cetera. The process of decision is complex because of the need to weigh the multiplicity of varying factors and to draw the right conclusions. (25:8)

What distinguishes DPW from other real estate developers is the scale of its activities. An indication of the volume of individual projects being planned in any year in DPW was given in the 1973-74 Annual Report. During that year approximately 1,000 projects were in the preliminary stage and 700 in the active planning stage.<sup>2</sup>

---

<sup>1</sup> Canada, Department of Public Works, "National Investment Policy", August, 1976, p. 2

<sup>2</sup> Canada, Department of Public Works, *Annual Report 1973-74*, Ottawa, p. 16

It is through the process of decision-making—which Public Works calls ‘front-end planning’—that the department’s mandate as the real property developer for the federal government is fully exercised. This has become the critical function of DPW, although the department is still frequently regarded by client departments primarily as a design and construction agency. The department’s role as real estate developer was first recognized in the internal re-organization which has grouped under the Assistant Deputy Minister Realty all activities directly related to the department’s role as custodian of the real property of the federal government. More recently it has been elaborated in the introduction of what the Minister called “more formalized and structured planning systems.” (1A:8)

### **Defining the Requirement: Short Term or Front-end Planning**

Mr. Hartt, Director General of the Departmental Program & Planning Branch discussed the Department’s responsibilities for planning its investments in real property.

You have to accept that the construction of the building is the fourth or fifth step in the process. The difficult part is defining the requirement and then looking at the alternative ways of satisfying that requirement. In addition, one has to deal with the questions of what the cost should be, the time period involved, the quality, and so forth. (8:22)

The considerations which must be taken into account during this pre-approval planning phase of each request for accommodation have been detailed in a departmental document which charts the action required at each of nine identified stages from identification of the need for the accommodation to its operation as an in-service facility. Collectively these nine stages are known as the Project Delivery System. The activities of defining the requirement and looking at the alternative ways of satisfying the requirement referred to by Mr. Hartt are dealt with in great detail during stages 1 and 2 of this process. The third stage completes the developmental phase and culminates in a recommended solution to an identified need for accommodation.<sup>3</sup> The subsequent stages involve the execution of the planning decision.

The Project Brief with its recommended solution is the final step of stage 3. It is prepared with sufficient detail to permit actual design activity to commence, if a decision to build is recommended. The Project Brief is presented for approval at the appropriate level based on its total estimated cost. Projects estimated to cost more than the delegated departmental authority are submitted to the Treasury Board. Project Briefs are also prepared for single purpose accommodation projects undertaken by DPW for other government departments and these also require approval by an equivalent level in the client department.

---

<sup>3</sup> The following description is based on a paper prepared for the Committee by DPW entitled “The DPW Crown-Construction Process.” See proceedings #6 for discussion of it.



### Is the Project Delivery System Necessary?

Comprehensive planning in accordance with the Project Delivery System has been in effect in DPW on a pilot basis since April 1976. In June, 1976 all regions were instructed to begin using this procedure which became mandatory for all property over \$2.5 million from April, 1977 (6:40). It was instituted when it became apparent that inadequate front-end planning increased the final cost of providing accommodation. Now the regional Program Planning & Coordination branches take a leading role in the team effort project development requires. They assume responsibility for gathering information from the functional branches and steering the Project Memoranda and the Project Brief through the regional approvals process. This system is applied in part to all requests for space regardless of size, but the solution is often immediately apparent and many projects can be expedited.

DPW finally has in place a system to ensure that the myriad of planning hurdles are all considered. Private developers must examine many of the same alternatives with equal care, but the catalogue of approvals required is undoubtedly smaller and the range of options fewer so that they do not need a formalized system. Having a formal checklist not only provides good administration control, but it should also make it possible for Public Works to focus responsibility in the planning and execution phases of project delivery.

In the past the Committee received indications that DPW projects suffered through lack of a concentration of responsibility. Each phase of the planning process required approval from separate elements within the department. Lacking a guiding force, projects advanced slowly through the various planning stages and lost consistency in the process. As part of the Project Delivery System, the department has now required that a Project Development Officer should supervise and propel a project through the three initial planning stages, at which time a Project Manager is assigned responsibility for the job until it is ready for occupancy.

Although this new system has been in effect for less than a year, reports which the Committee has received indicate that it is bringing significant benefits. The staff of the Auditor General's office made a preliminary evaluation in five of the six DPW regional offices and found that these new procedures, then being used in selected pilot projects, met the requirements of an appropriate decision-making process. "In eight of 10 major projects we found that the guidelines had been adhered to in making final decisions and that the optimum financial choices had been taken into consideration."<sup>4</sup>

It is most important that DPW be recognized as the property development agency of the federal government. This is the logical extension of the Committee's recommendation that DPW be designated as a common service agency.

---

<sup>4</sup> Canada, *Report of the Auditor General of Canada to the House of Commons—1976*, Ottawa, p. 85

As the property development agency of the federal government DPW must determine how the accommodation requirements of other government departments are to be met, and this function should not be delegated to outside consultants. The department should be organized so that its property development activities are of prime importance. This function largely takes place in the first three stages of the Project Delivery System culminating in the Project Brief and is probably the most important part of DPW's entire activity.

The Committee approves the new procedure for coordinating the planning and execution phases of DPW's work as a realty developer. However, in a very large organization such as Public Works, it is critical that highly competent persons be appointed as Project Development Officers and as Project Managers. Moreover, it is essential that senior management in the Department should support and reinforce the authority of Project Development Officers and Project Managers.

**The Committee recommends that DPW be formally designated as the federal government realty developer and that DPW emphasize the importance of its realty development function in its organization. To ensure the effective functioning of the new Project Delivery System, it is important that Project Development Officers be given the necessary authority to move projects efficiently through the planning stages of the System and their job descriptions specify that these positions be filled by highly competent persons.**

The planning system determines the manner in which DPW satisfies a departmental request for accommodation. The Committee examined the various options that are available and a discussion of these options follows.

## **A. THE LEASING OPTION**

The Project Brief contains the recommended solution to an identified need for accommodation. In many instances the evaluation of all the factors related to the requirement leads to the conclusion that it would be preferable to lease space from the private sector rather than build another federal building. Mr. Williams told the Committee that "leasing is attractive, particularly when you have a requirement without a lead time and you have to get space." (1:31)

### **Current Leasing Activity**

At the time of the Committee's examination DPW had under lease from the private sector close to 27 million square feet of accommodation for which in 1977 it paid rents totalling \$152,052,947. The cost and quantity of space leased by DPW has steadily risen in recent years, in fact by well over \$100 million since 1971. (See Table 4, p. 66) Since the time of the Glassco Report DPW has in percentage terms doubled the amount of space held under lease. At present about thirty per cent of the total inventory of space under DPW

control is leased. In 1961 rental payments totalled \$7,785,000.<sup>5</sup> Not only was the total inventory much smaller than it is now, but only fifteen per cent was held under lease. Questioned about the evident increase in the amount of space leased by his department, Mr. Williams explained that it was "a direct consequence of a rapid growth in the civil service." Programs were introduced which had to be accommodated too quickly to permit consideration of the Crown construction solution. (1:31)

Public Works leases space in over 2,400 buildings located in every province and territory. Leased space ranges from parking places to complete office buildings. The heaviest concentration of leased space is in Ottawa. In 1977 it was estimated that the private sector owned ten million square feet of rentable office accommodation in Ottawa. According to one news release, before the movement of federal departments and agencies from leased accommodation into the new federal buildings in Hull began, the federal government leased seventy per cent of that space, although not all of it was leased by DPW.<sup>6</sup> A list of those buildings owners who have DPW as their tenant shows that the top five in terms of space are located in Ottawa. Of these Campeau Corporation and Olympia and York Developments Ltd. own by far the largest percentage of space leased to the federal government.<sup>7</sup>

DPW's professional competence in leasing office accommodation was acknowledged by private sector witnesses who appeared before the Committee (20:7, 21:40). Officials of the Property Administration branches arrange and administer a large number of leases in every region each year. In addition it is departmental policy to collect information for a permanent inventory of space currently available for lease in centres of major leasing activity. Public Works staff as a result have gained more experience in this area than many private sector companies.

The quality of accommodation leased by DPW has increased in keeping with the trend in the private sector. In the early sixties the Glassco Commission noted that "the government tends to rent space of medium and sometimes low quality" which the Commissioners felt to be false economy.<sup>8</sup> This is no longer the case. Mr. Williams told the Committee that the quality of space is always a factor in leasing because union contracts negotiated by many public servants now specify entitlement to certain facilities and amenities. (1:39) Also Treasury Board policy states that departments are to be assigned space to meet their program needs "at minimum overall cost, taking into consideration the

---

<sup>5</sup> Canada, *Report of the Royal Commission on Government Organization*, Vol. 2, "Supporting Services for Government", Ottawa, 1962, p. 56

<sup>6</sup> *Globe and Mail*, Toronto, June 3, 1977

<sup>7</sup> Canada, House of Commons Standing Committee on Public Accounts, *Minutes of Proceedings and Evidence*, 62, May 25, 1976, p. 49. A complete listing of rentals charged to the Accommodation Program by location, landlord, space occupied in square feet and annual rent may be found in the Public Accounts, Volume II Details of Expenditures and Revenues

<sup>8</sup> Canada, *Report of the Royal Commission on Government Organization*, Op. Cit. p. 57



practices of other large employers in Canada.”<sup>9</sup> This comparison with the private sector permits Public Works to lease accommodation of better quality. The Chairman of Cadillac Fairview Corporation Ltd., Mr. A. E. Diamond, commented on this change in his testimony.

My observation is that government departments generally have for years lagged in terms of standards as compared with the private sector and over a period of years they have been trying to catch up. The space per employee in the private sector would be closer to 250 square feet than to the 170. Not so long ago buildings built for the government were lower in comfort standards than those for the private sector...Over a period of time the Department of Public Works have upgraded their standards to approach those of the private sector...(21:39/40)

### Terms and Conditions of Leases Taken by Public Works

Various Public Works officials testified that leasing is the preferred solution for short-term requirements or when the need for space is urgent. Leases are now therefore usually taken for five years with an option to renew. (6:17, 4:44) The emphasis has been on capital construction in recent years so that straight long-term leases from the private sector have not been sought, although a number of longer leases particularly in Ottawa which pre-date the present policy are still in effect. When leases are taken in isolated communities “the attraction is for 20 years” according to Mr. Williams. (4:47)

The Committee heard from a variety of private sector firms who lease office space. The brief from the Canadian Institute of Public Real Estate Companies (CIPREC) reflects the majority opinion about the terms of the lease they prefer.

The industry prefers a net lease which provides a positive cash flow and often, but not always, a long-term lease is preferred to achieve financing. The long-term lease is particularly important if the building constructed is not likely to attract other space users than the federal government. (21A:2)

This statement was further clarified in testimony by the President of CIPREC. A net lease is preferred because building owners “would like not to risk unduly on factors which are subject to escalation, such as taxes, operating costs and so on.” He agreed that in locations where the federal government is not a major tenant a shorter term lease would be acceptable. “It depends on the location of the building. I think, currently, in the City of Ottawa...no developer would want to lease to the government on short term.” (21:8)

### Restrictions on Leasing Space

Leasing space for federal government activities is tightly controlled by a number of restrictions imposed by the Treasury Board particularly through the contract regulations, and the *Guide on the Administration of Office Accommodation*. These apply to client departments as well as to Public Works.

<sup>9</sup> Canada, Treasury Board, *Guide on the Administration of Office Accommodation*, Ottawa, p. 1



Departments (apart from External Affairs outside Canada) must use DPW as their agent in the rental of office accommodation from the private sector. They are specifically prohibited from consulting or negotiating directly with owners about existing or prospective leases for office accommodation. Departments may for operational reasons place restrictions on the geographical location of office accommodation within an urban area. DPW will meet these requests by negotiating for space listed on their inventory of available rentals, but permission from Treasury Board must be sought by the client department first if the amount of space required in a restricted location exceeds 10,000 square feet in the National Capital area or 5,000 square feet elsewhere in Canada.<sup>10</sup>

Public Works must seek Treasury Board approval to enter into a lease for which the annual rent will exceed \$100,000. Public Works is also restricted in acquiring space in excess of 5,000 square feet (10,000 in the National Capital Region) by the requirement that competitive proposals be solicited by advertising in the public press, that is by calling for tenders. However, some exceptions to the policy on tendering for leased space are permitted. DPW can renew a lease to provide continued occupancy. It can negotiate directly with the owner for additional space in a building already occupied, when only one location is possible, when time limitations preclude using the tender procedure, or when the market conditions preclude the possibility of receiving any response to a tender call.

There are also restrictions on the cost per square foot. Public Works is required by the office accommodation guidelines to find "the lowest cost accommodation of the required size and of a quality which meets established standards."<sup>11</sup> Rental rate cost guidelines have been approved by the Treasury Board and permission to exceed the established rental rate in a given area must be sought from Treasury Board prior to obtaining the space.

### **The Present Method of Leasing: Advertising for Proposals**

Until 1974 it was the general practice for DPW officials to negotiate directly with owners for space on the basis of market value rates as in the limited situations outlined above they still do. A departmental directive in November of that year stated that competitive proposals must be sought for the acquisition of any single space requirement over 5,000 square feet (10,000 in the National Capital Region). The directive explained that the change had been dictated in part by the increased volume and size of leases required to provide accommodation for the rapidly expanding public service. "There is a need for us to demonstrate an equitable approach to acquisition of space by lease."

---

<sup>10</sup> Ibid, p. 6

<sup>11</sup> Ibid, p. 8

This change to the tender process for the acquisition of space was a logical extension of what the Deputy Minister of that time called "a long secular trend in the Public Service of Canada toward the direction of tenders for everything." He told the Committee that by statute building construction contracts had long been let by tender. (7:12)

Under the present system when a developer or owner responds to an advertisement asking for lease proposals he posts a security deposit and effectively removes his property from the market for a period specified in the tender documents. Straightforward proposals are dealt with much more quickly. The time is needed for evaluation of the proposal by Public Works and for Treasury Board approval. Departmental officials maintained that owners are still free to market their property on a conditional basis, the condition being that DPW has first claim on it. Some owners evidently do continue to advertise their space even though it has been offered to DPW. However if the owner actually leases his property to another party during this period he forfeits the security deposit, which is usually five per cent of the annual rental up to \$200,000 and one per cent on the balance.

All bids received in response to the lease tender call are point rated against pre-established criteria. Certain minimum specifications must be met. A formula combining the point rating and the rent quoted is used to rank the bids and select the successful one.<sup>12</sup> The evaluation and point rating is necessary because, as Mr. Williams explained, "you do not get all of them offered on the same basis." (1:65)

Lease proposals are restricted to buildings already under construction. DPW officials explained that under the present system "no one can bid unless the building is constructed to a certain proportion of completion, so that we do not receive bids from people intending to assemble land." (1:36) It was acknowledged in testimony that builders hoping to rent space do approach DPW but their offers to negotiate are rejected in keeping with the spirit of the policy. (1:40)

If we went ahead we would give unfair advantage to somebody. If we just say to any private developer that we want space at such and such a rate and guarantee that we will take the space, he has the advantage of using us to raise money to put up his building...If we call for tenders it is a public call and everybody has a chance. (8:34)

### **Impact of the Tender Process on Leasing Costs**

The sub-Committee which visited the Western region was told that calling for tenders can result in increased costs and front-end loading of bids. It was estimated that this extra cost could range as high as ten per cent. In addition, regional officials were of the opinion that small developers particularly were

<sup>12</sup> Canada, Public Works Memorandum, March 9, 1977 "Commonly Used Real Estate Terms"

discouraged from making lease proposals because of the time lag between the tender call and the actual date of occupancy which could be as long as six months.

This and other evidence received by the Committee suggests that Public Works pays a price for tendering for lease space. The brief submitted by A.E. LePage Ltd. suggested some of the penalties of the tender process.

The position of the federal government as a lessee in the real estate market has changed considerably over the last few years. In the pre-tendering era, Department of Public Works agents negotiated from strong position and produced results that compared favourably with those of triple-A private sector tenants. Our leasing staff feels that the lease terms now offered to the government are not nearly as competitive with leases negotiated by private sector companies as they used to be. The lag time between tendering a lease and the decision to accept is so great that many building owners do not bother to respond to a tender. (20A:6)

Tendering precludes the Department of Public Works from utilizing the leverage that all prime tenants have to negotiate a preferential rental rate. Mr. William Moore, Vice-President (Ontario) of the same company suggested that where it is to be a major tenant in a building, Public Works would probably do better to negotiate rather than call for tenders.

In the marketing of an office building the developer would normally be prepared to take a lower margin on a major tenant and make it up on smaller tenants in finishing off the leasing. (20:33)

This witness also contended that space offered in response to a tender call is likely to be located in less successful buildings.

Owners who have buildings they are confident will be successful would shy away from tendering; but it would always attract tender bids from building owners who have buildings they are concerned about. (20:35)

## **Alternatives to Tendering For Space**

Various alternatives to tendering for space which would be fair and equitable were discussed with witnesses. This included one formerly used by the Government of Ontario which resembles the negotiation system DPW is still permitted to use for some categories of space. In Ontario submissions are received from real estate brokers and owners on a continuing basis, thus providing current information on space available for lease. Responsible provincial leasing officials examine the actual sites and recommend that certain owners be asked to make a proposal to meet particular requirements. (20:35)

Other alternatives were contained in the brief from the Canadian Institute of Public Real Estate Companies (CIPREC). The brief acknowledged that "where the government can ascertain its needs precisely" an economic rent could be arranged under the tender system. However, it was too inflexible and resulted in inefficiencies and higher costs for leases for standard office space.

We suggest therefore that a modified tender proposal be used in which your Department is given some latitude in judging such proposals based on location, quality of space and many

other factors, relying in large measure on the market place to determine that it has the best possible deal. Where it is deemed desirable to have tenders only, it is advantageous that bidders be pre-qualified. (21A:6)

Regional officials of DPW also made suggestions which would not replace the tender system but might make it work to better advantage. These centred on improving the approvals process. One possibility would be to consider only the two or three lowest bids, thus releasing the other bidders to market their space elsewhere. An increase in the amount of space which could be leased by negotiation rather than by the tender system (now only 5,000 square feet everywhere except in Ottawa-Hull) was also suggested.

The Committee recognizes that the tender system has been introduced to ensure probity in public business and to protect the department from charges of giving unfair advantage in its leasing activity to some landlords. Nonetheless in view of the added cost of tendering, it is desirable to consider alternatives which would permit DPW more freedom to negotiate lease terms, while not restricting owners wishing to make lease proposals from doing so. DPW's requirement that owners tendering on a lease remove their property from the market or suffer the loss of their security deposit may be limiting the availability of good space. The private sector does not make such demands. As a minimum DPW should release the least competitive bidders as soon as this fact is clear.

DPW should also be authorized to consider proposals for rental space in buildings not yet under construction providing the space can be made available within the desired time limit for occupancy. DPW would of course have to exercise such authority with discretion. In a normal market, this could result in lower rentals especially where DPW's space requirement is relatively major. However, this approach should not be used in a market where there is a large amount of vacant space, as it would merely have the effect of adding additional vacant space.

DPW is now required to tender on all leases for space in excess of 5,000 square feet outside of the Ottawa-Hull region and of 10,000 square feet in the National Capital Region. These limits are too restrictive. They should be doubled, and DPW authorized to negotiate leases up to the higher limit. The public is provided with proof that DPW has negotiated fairly in the annual listing in the Public Accounts of the names of those individuals or companies renting space to the federal government, the actual rental charged and the space occupied in square feet. Also, under a revenue dependent system the other departments will have to pay the rent plus a service charge to DPW for the use of the space, and they will object if that rent is out of line with comparable market rents.

DPW would continue to assemble its inventory of space available for leasing and would therefore be open to proposals from owners wishing to lease space. Within the enlarged limits DPW would be required to advertise its



intention to lease space, but would not be required to tender it. DPW would generally be negotiating from a strong position, and as A.E. LePage Ltd. stated, the terms received would be as favourable as the more competitive terms at present negotiated by private sector companies. This would be especially true where DPW is to be the prime tenant in a building. It is a fact that DPW is most likely to be the prime tenant when its space requirements exceed the enlarged limits. In such cases DPW would be in a extremely strong position if it could negotiate the terms. However where the space requirements are large, the terms obtained through tendering would generally be as favourable as those that could be obtained through negotiations.

Treasury Board approval must be sought if the annual rental under these leases exceeds \$100,000. This is the major cause of delay and thereby adds to the cost of leases. Treasury Board already exercises other controls: it places overall ceilings on DPW expenditure under the accommodation program and it establishes detailed guidelines on rental rates which the department can pay. At the same time, in a revenue dependent system, when Treasury Board approves the program activity of a client department, it will also have to approve an appropriation of the rental cost of housing that activity within established space guidelines. In these circumstances there is no valid reason why the dollar limits on leases requiring Treasury Board approval should not also be raised. Revenue dependency will increase the need for DPW to be flexible and to act quickly in order to secure the best possible terms.

**The Committee recommends that on condition it advertises its space requirements, the Department of Public Works be authorized to enter into leases in existing or proposed buildings for space up to 20,000 square feet without having to seek competitive proposals within these limits. The Committee further recommends that the Department of Public Works be authorized to enter into leases where the annual rate does not exceed \$250,000 without the approval of the Treasury Board. Beyond these revised limits competitive proposals should be sought but the least competitive bidders should be released as soon as Public Works evaluation makes this fact clear.**

### **Should DPW Lease or Construct Required Accommodation?**

It was pointed out by several witnesses that there are advantages as well as disadvantages to any method of providing accommodation but it was admitted that DPW has a definite bias for building over leasing. Mr. Williams explained that this is a long standing preference. "The Government of Canada built its own buildings and owned them. That was the philosophy." (1:70) Crown construction is the favoured option particularly where there is a "continuing and ongoing requirement for the presence of the federal government." (1:31) However, the Crown-construct option may not always be open or desirable. "We recognize that we will always have a lease situation and it is healthy to have that lease situation because it can be more flexible." (1:31) DPW will for

instance continue to lease large numbers of small post offices located for convenience in urban areas which are subject to change.

The preference for the Crown-construct option was challenged by private sector real estate interests in their letters and testimony to the Committee. Leasing was seen as more economical and more efficient chiefly because it is more flexible to lease than to make the long-term commitment inherent in the Crown-construct solution. A.E. LePage Ltd. argued this point as well as others in their thoughtful submission.

In leasing premises...the ability to expand or contract as needed through options on expansion space or sub-letting of excess space is possible...Leasing space requires a minimum amount of capital as compared to owning. Should the building be poorly built or inefficient, the government would only be committed for the term of the lease...Changes in office building technology...contribute to built-in obsolescence in office structures. Many office buildings built in Toronto in the 1950's are virtually unrentable now without extensive renovations...When the advantages of a new building outweigh the advantages of renewing a lease in an older building, then the government would be in a position to make the same decision as any private corporation. (20A:3)

The Committee endorses this résumé of the benefits of leasing and commends it to the department. In fact, the Committee notes DPW's present realty portfolio comprises 30 per cent leased premises, which suggests that in spite of its admitted preference for Crown construction, the department has exercised the leasing option.

There are certain principles which the Committee recommends that the department follow when concluding rental arrangements for general purpose accommodation:

- a) In the private sector facilities are often obtained on long-term leases either because of a shortage of corporate capital or because corporate capital can bring a higher return when invested elsewhere in the business. The federal government is the prime rated borrower in the economy and can borrow long-term at rates well below the private sector. It will therefore generally not be to DPW's advantage to enter into long-term leases.
- b) However the real estate market is very sensitive to supply and demand. There can be periods when there is a substantial oversupply of space (as is the case now in many cities) and space may be acquired at very advantageous rates with limited escalation clauses.
- c) Apart from unusual situations, DPW will generally be wise to limit leases to short or medium terms.
- d) DPW should always obtain options to renew the lease as far out as possible provided the rent for the initial term is not unduly raised to secure the options. This gives DPW the advantage of a medium-term commitment with a long-term possibility.
- e) Short-term leases can be expensive if DPW has to amortize the cost of substantial tenant's improvements.

**f) Leasing is particularly attractive where smaller footages are required, where locations are diversified or where the term of use is relatively short or uncertain.**

## **B. THE LEASE-PURCHASE OPTION**

Generally our policy is that given the capital funds in the long run we would prefer to Crown-construct to resolve the requirement of client departments. But for short-term requirements...we will look to a lease solution...Lease-purchases are something else in between the two...(6:16)

H. D. MacFarland, Director General  
National Capital Region

The Department of Public Works has to a limited extent in recent years found it advantageous for its Accommodation Program to consider the lease-purchase solution as an alternative either to a straight lease or to construction of the space required. As a percentage of the total inventory of leased space the commitment to lease-purchase agreements by Public Works has been very small. Only 3 to 4 percent of the department's total leased inventory has been arranged in this way. (1:68) The department eventually identified twenty current lease arrangements which it considered could be described as lease-purchase agreements as that term is understood by DPW.<sup>13</sup>

The Committee explored the technique of lease-purchase in some detail with both departmental and outside witnesses because four of the twenty agreements were for buildings of significant size and cost in Ottawa-Hull. These four major agreements had attracted a good deal of parliamentary and press attention before the Committee began its examination. The Committee devoted one entire hearing as well as portions of many other hearings to this topic.

### **What Is Meant By Lease-Purchase?**

Definitions of the term lease-purchase vary but that given the Committee by the Appraisal Institute of Canada most closely describes the common factors in the variety of agreements Public Works has made. The Institute wrote:

Lease-Purchase: As applied to Real Estate, this generally provides for payment of a fixed rental for provision of the space, with an option for the tenant to purchase the property at some time in the future, normally at a predetermined price. The lease normally is based on a net rental, with the tenant being responsible for all operating costs.

---

<sup>13</sup> Originally 19 lease-purchase agreements were described. See details in proceedings 4A:10. This number was amended at a later hearing to twenty. See 13:17.

The Public Works paper "Commonly Used Real Estate Terms" states that lease-purchase is "a lease approach whereby the owner of the real property has agreed to sell the property upon the termination of the lease contract." It describes variations of lease-purchase, each of which have been used by the Department. These are a) lease with option to purchase, b) lease with option to purchase at market value, c) purchase over time, and d) build to lease-purchase. Private sector witnesses, however, did not consider all of these to be lease-purchase agreements. Mr. A. E. Diamond, Chairman and Chief Executive Officer of Cadillac Fairview Corporation Ltd. testified that:

A lease-purchase is different from a lease with an option to purchase...I believe there are some tax ramifications that flow from a lease when the lessee has the option to purchase at the end of the period, rather than an obligation to purchase. (21:41)

The Minister explained that for Public Works "there is no set procedure as far as these purchase agreements are concerned."<sup>14</sup> The department provided the Committee full details of the arrangements for each of the twenty identified lease-purchase agreements it has made to date and these may be found in appendices to Proceedings numbers 4 and 13. The following general observations and conclusions are based on a detailed examination of these individual agreements.

### **Introduction of the Lease-Purchase Approach by Public Works**

The lease-purchase option was available and had been used by the private sector for twenty years or more before Public Works adopted it to acquire over 4 million square feet of space in four major buildings in Ottawa-Hull beginning in 1974. DPW first revealed that it was considering lease-purchase in 1964. Dr. Davidson, then Secretary of the Treasury Board, testified that year before the Senate National Finance Committee that "at the present time Public Works and the Treasury Board have under study the possibility of a number of lease-back arrangements which...could establish a new pattern for the provision of normal government office space requirements."<sup>15</sup>

The first of the sixteen smaller identified lease-purchase agreements was actually made in 1966 for a small post office in the North West Territories. In 1971 three more post offices and an RCMP building were similarly leased with an option to purchase followed by three more agreements in 1972, all for buildings in remote areas. These agreements were entered into largely for convenience. In 1974 however, the resources of the department for capital construction were fully committed as a result of its pursuit of the policy of consolidating government departments in Crown-owned buildings. The planned construction of the seven-stage Place du Portage project in Hull and other buildings in Ottawa and elsewhere in Canada was well advanced. When an

---

<sup>14</sup> Canada, House of Commons *Debates*, November 3, 1976

<sup>15</sup> Canada, Standing Senate Committee on National Finance, *Proceedings*, June 9, 1964



urgent need for more space arose from the rapid expansion of the public service the department issued lease tender call number 5 which not only called for proposal for straight lease of space but also invited owners to propose a lease-purchase arrangement.

Mr. Williams explained that "circumstances gradually moved us to the point where it was necessary and appropriate for us to look at this alternative, which was being used by the private sector." (1:70) It was considered appropriate because lease-purchase was compatible with the general investment policy fostered by his predecessor as Deputy Minister, J. A. Macdonald. As early as February 1970 Macdonald had indicated that it would be desirable for DPW to develop joint ventures with the private sector and with provincial governments in order to make the best use of federal land for wider social goals.<sup>16</sup> He elaborated this thesis before a conference on property management in the United Kingdom in September 1974. By this date DPW was actively negotiating the four major lease-purchase agreements in Ottawa-Hull formally authorized a year or more later. His statement therefore can be assumed to reflect the prevailing philosophy of his department.

Funds disbursed on the leasing of existing private sector space in order to meet the unforeseen needs of client departments are public resources that are not directed toward the broader public benefit. Those are opportunities lost. Advanced and thorough forward planning on the part of user departments will maximize the opportunities available to the Department of Public Works to direct its investment in Crown construction, lease-purchase, or joint ventures with the private sector, and to direct it strategically, toward the improvement of the urban environment...<sup>17</sup>

Each of the four major projects in the National Capital Region meet this general investment policy. The first transaction to be actually committed (June 13, 1975) was for two office towers of a building nearing completion in Ottawa. L'Esplanade Laurier was offered to DPW in response to lease tender call number 5 and falls within the "lease with option to purchase" category. A "build to lease-purchase" variation for 240 Sparks Street in Ottawa had been under consideration for some time before the transaction was authorized on August 1, 1975. Tenders were called and a lease-purchase for the superstructure of this building was awarded to Olympia and York Developments Ltd. who had also successfully offered L'Esplanade Laurier.

The agreements negotiated for the two lease-purchases in Hull, Place du Centre and Les Terrasses de la Chaudière were also "build to lease-purchase" types. They certainly could be described as joint ventures with the private sector which have had a profound impact on the urban environment. Place du Centre was developed by Cadillac Fairview Ltd. and is part of a redevelopment project involving the provincial government, the NCC and the City of Hull. The federal building is part of a complex which also has a large commercial

<sup>16</sup> *Monetary Times*, February 1970

<sup>17</sup> John Macdonald, Notes for a Speech at the Conference on Property Management, King's College, Cambridge, September 24-5, 1974, p. 9

area and a hotel site. The proposal that DPW consider an agreement to acquire Les Terrasses de la Chaudière by lease-purchase was made by the developer, Campeau Corporation, which owned the major portion of the required land. This complex also includes commercial premises and a hotel site but the office space is to be entirely occupied by the federal government. Place du Centre was authorized on September 19, 1975 and Les Terrasses de la Chaudière on July 21, 1976. The developers retain the commercial areas of both these projects.

### **Why Public Works Used Lease-Purchase Agreements to Acquire Space**

While lease-purchase agreements could be justified as meeting the department's general investment policy, Public Works advanced other reasons in testimony to support the department's venture into the large financial commitments created by the four major projects in Ottawa-Hull. Mr. Williams explained that it was a "combination of circumstances" which made it necessary to consider the lease-purchase approach.

What we were looking at was this. We could never build fast enough, that was obvious, so one of the things we could do in the lease-purchase was to stabilize the rents. You entered into a deal, you paid it off, and you owned it at that time. You could stabilize the rents over that period, and it was another option that we felt had to be looked at...(1:70)

Both Mr. Williams and Mr. Macdonald testified that the circumstances arose from the increased demand for office accommodation which absorbed the total capital budget for Crown construction. Mr. MacFarland, Director General of the National Capital Region where this pressure was most acute explained the consequences of this to the Committee.

...we did not have a nickel to spend on anything else. We were not going to get the Museum, the Archives or the National Gallery. So what alternatives did we have then to make this possible and relieve the strain on the capital program? One alternative, obviously, was leasing...In the national capital...it is possibly not always the ideal solution; we do not have the same control as we would with a Crown-construct or lease-purchase, with respect to which we can make certain specifications. So we turned to the lease-purchase process. (6:36)

The possibility to control the design and the siting of the building acquired through lease-purchase was a relevant point. In the National Capital Region the National Capital Commission, as its Chairman explained, has "an important say in where new government buildings should be located." (17:27) Later in the hearing he expanded this explanation.

Our control is on the siting of the building because that is important for the planning of the area, and on the external appearance of the building. The decisions on those matters are pretty well one-time decisions... (17:32)

The increasing dependence of Public Works on leasing from the private sector in the National Capital Region had denied the National Capital Commission the opportunity to exert its control on the siting and design of buildings occupied by departments of the federal government. Mr. Macdonald expressed this in another way.

...our leasing a building in Ottawa had robbed them of the opportunity to use architecture as an instrument of creating a national capital. I think that was a valid point. Architecture has to be thought of as one of your main instruments for creating a built-in environment. (7:31)

The present Minister of Public Works has particularly emphasized the need to extend cooperation with the private sector in many of DPW's activities and his discussion of the reasons why his department began to acquire accommodation by lease-purchase focussed on this aspect. He confirmed the pressures on the resources of the department "both in the sense of financial and the sense of in-house staff capacity to meet these needs." However this was only part of the reason.

The other reason goes back to the question earlier of trying to make better use of the private sector, in the sense that they own, maintain and build the structures for a fairly significant time into the future...It seems to me that also ties into the policy of shifting a greater responsibility to the private sector. As far as I am concerned that is the policy I am inclined to pursue. (21:25)

All of these factors weighed with the department when it approached the Treasury Board for approval to complete the superstructure of the building at 240 Sparks Street by a lease-purchase agreement. It is evident that originally this was to have been a Crown construction. DPW owned the site, developed the full plans and specifications, and tendered itself for the building of the infrastructure. This building was the prototype of what DPW hoped to achieve by going for lease-purchase over Crown construction or leasing. Mr. Macdonald gave a full description of the department's rationale for the adoption of this solution for this building.

We wanted to get the virtues of leasing with the virtues of control over architecture and the financial virtues inherent in that. The entrepreneur would be asked to bid on his skill at raising money, constructing the building and delivering it for a pre-stated price per square foot, to be paid over a set term of years, at the end of which for a set sum of money we would own the building. So in the long run we would have Crown construction—because we had designed it, we owned the land and it was where we wanted it to be as a building in the national capital—but, in effect, we bought it on the instalment plan at a price no greater than had we gone out and leased a piece of property. (7:32)

The other three lease-purchases in the National Capital Region were undertaken for much the same reasons. The negotiations for L'Esplanade Laurier were completed more quickly because it was offered as a nearly completed building in response to lease tender call number 5. When DPW was approached directly to consider the lease-purchase of Place du Centre and Les Terrasses de la Chaudière in Hull the National Capital Commission was already involved in the development of the sites. DPW was able to exert control on some aspects of the design and specifications, but the main attraction of these two proposals was the opportunity they offered DPW to shift responsibility for construction and long-term financing to the private sector.



### Use of Lease-Purchase Agreements Outside the Federal Government

Evidence of the experience of others familiar with lease-purchase was gathered by the Committee. For three years, 1972-75, the U.S. General Services Administration was authorized to arrange for the construction of a backlog of approved government buildings through the Purchase Contract program. In many cases the site, design and specifications had been prepared, but no funds had been provided for construction. Although the purchase contracts had some similarities to lease-purchase agreements, they were basically time payment plans at commercial interest rates. They did not include an option to purchase because at the end of the term the contract stipulated that the title had to be vested in the government.

During the authorized period approximately \$1 billion worth of federal buildings was procured by purchase contracts. However, this program has not been continued and the reasons for this are relevant to the Canadian experience. From its inception the Purchase Contract program was considered a stop gap expedient to eliminate a particular problem. Mr. Dwight Ink, a former official of the U.S. General Services Administration, told the Committee it had been a controversial experiment, which the Congressional Appropriations Committee viewed with skepticism.

The feeling on the part of that committee was that the program was simply another means of stretching out the commitments of the government and adding to the problem of such a large portion of the federal government expenditures being virtually uncontrollable. Another factor was that such a program would saddle future Congresses and Presidents with an obligation that had to be fulfilled. (23:14)

Two of Canada's largest corporations, Bell Canada and the Royal Bank appeared before the Committee to describe the management of their real estate resources and in doing so described their use of lease-purchase agreements. From this testimony it was evident that the private sector in Canada had ceased to obtain its accommodation requirements by lease-purchase some time before Public Works became committed to the four major transactions in Ottawa-Hull.

Mr. Arsenault of the Royal Bank testified that "during the 60's the lease-back formula proved to be an excellent alternative to ownership." (25:8) He explained that during that decade professional developers were able, because of prevailing economic conditions, to offer favourable real estate packages. The Place Ville Marie complex was the prototype for the agreements made during this period by the Bank. Similar long term agreements were made for the development of some thirty properties (out of 1600 units), all large structures like the main offices of the Bank in Vancouver, Calgary, Edmonton, Winnipeg and Halifax. Lease-back ceased to be an attractive alternative to leasing or construction about 1972 because the economic climate had changed. Developers were no longer able to obtain long-term financing at a predeter-



mined cost. Where a long-term commitment is indicated the Bank now prefers to own its buildings. (25:14)

Mr. Thornton of Bell Canada confirmed that his company had in the past entered into a number of lease-purchase agreements. Bell Canada had based its decision to enter into these agreements on such factors as the relative cost of financing, income taxes, capital cost allowance, etc. and for a time lease-back was considered the most economic solution. However, he reported that two of the factors which were previously favourable no longer prevailed. First, a number of income tax changes in Canada and the United States had an effect on the ability of investors to secure the large profit that had formerly been generated through lease-backs. Secondly, the value of all long-term leasing is now perceived by the financial community as being a part of a company's outstanding obligations. Lease-backs are therefore no longer viewed as an economically desirable solution. (25:16)

### **Private Sector Views on the Advantages and Disadvantages of Lease-Purchase**

It was the opinion of some private sector witnesses that the most economic methods for DPW to acquire new space would be by lease or lease-purchase but others disagreed. The brief from the Canadian Institute of Public Real Estate Companies (CIPREC) acknowledged that "while lease-purchase has many advantages over straight lease, it has certain shortcomings." The principal one related to the rental charge.

It is our judgement that, under normal market conditions, a lease-purchase would result in a somewhat higher rent than a straight lease. Since under lease-purchase there is normally a low residual value it therefore becomes necessary for the developer not only to obtain a return on his equity but to amortize the equity over the lease term. (21A:1)

In their submission A. E. LePage Ltd. wrote that the idea of the government entering into lease-purchase arrangements with developers "has few advantages." (20A:4) In cases where the government has dictated the design criteria or has hired the architects and engineers for a lease-purchase project, the developer has less opportunity to use his expertise to achieve cost savings through his negotiations with architects and contractors. This company concluded that "these restrictions on the freedom of the developers are all reflected in a higher rent to the tenant than if the developer had a freer hand to control the project." (20A:4)

The witnesses who elaborated this brief were particularly troubled by the difference in cost of financing between lease-purchase and Crown construction. Mr. A. A. Stoddart suggested a way this difference could be minimized.

...if the government could avail itself of the development industry's expertise in purchasing what the government could finance there would probably be a two to 3 percent difference in spread in the long-term financing, which would show up in the cost. (20:36)

As suggested above, the cost of financing was a major factor affecting the decision of the Royal Bank and Bell Canada to stop making lease-purchase arrangements. But Mr. Arsenault commented "There are components other than financing that enter into the picture...pro or con lease-back." The lease-purchase buys a total package from the developer (25:24). This point was stressed by Robert Campeau in his letter to the Committee.

Once the proposal has been completed and the price agreed upon, the lease price is a firm price for the period of the lease-purchase. The government is not responsible for any stoppage of work, for any disputes on the job or for any bankruptcy; all of these risks are borne by the developer. Their responsibility starts only when the building is completed to their satisfaction and to the design and specifications agreed upon.

The Minister also cited these advantages. "By going to a lease-purchase certain risks that would normally be borne by us are shifted to the developer." The risks mentioned included additional costs arising from strikes or delays in the delivery of steel and other materials which frequently cause Crown construction estimates to be exceeded. (1:77) Further Public Works officials acknowledged that the developer could build the buildings to be acquired by these lease-purchases faster than DPW. (1:78)

### **Cost Comparisons Made by DPW Before Accepting Lease-Purchase Proposals**

The department routinely makes comparisons of the life-cycle cost per square foot of each proposed lease, lease-purchase or Crown-construct solution as part of the project development pre-authorization activity. This is accomplished by running the estimated cost data through the department's computerized realty analysis system. In the case of a lease-purchase no calculation is evidently made of the original cost of the land and the buildings to the developer nor is this comparison considered relevant. One official for instance stated "The developer's costs we do not know, and they are not related at all to our rent in the sense that if his costs go up our rent does not change. Our rent is fixed by negotiated agreement." (6:44) Another DPW official added a further comment about the comparisons made:

We were interested in just what that was going to cost us per square foot. We can compare that to the other leased purchase projects I referred to, leasing similar quality space in that year when it came on line. We know what Crown-construct cost us in that time frame. This is what we were comparing...(6:44)

Because the lease-purchase approach had not been taken on such a large scale before the department had no proven indicators in which to make realistic comparisons. Mr. Williams explained that the department looked for many things when reviewing a developer's proposal for a "normal" lease-purchase, by which he meant a situation similar to 240 Sparks Street where DPW owned the site and had stipulated the lease performance specifications.

What we are really doing is to find out whether the bidder can be as efficient as, or even more efficient than, we can be in the building, how fast he can bring it on line to create revenue, as

opposed to ourselves, with our approval system... and whether he can manage his construction better than we can, as against what we have always assumed, which is that he has a higher financing cost...(1:68)<sup>18</sup>

### Identification of the Cost of the Option to Purchase

In the words quoted earlier in this chapter of the Deputy Minister who initiated the lease-purchase agreement for 240 Sparks Street, Public Works “in effect bought” that building “on the installment plan at a price no greater than had we gone out and leased a piece of property.” (7:32) The documentation supporting the submission to Treasury Board seeking approval to enter into these agreements apparently did not isolate a cost figure within the total annual rental to be paid out over the life of the agreement attributable to the cost of securing an option to purchase the property. Asked if in the case of 240 Sparks Street the department ever calculated what it had paid for the option to purchase, Mr. Currie replied:

I think all we have figured out is what our own estimates of constructing that property would be, and we have compared on a net present value basis with our rental payments. Those were the figures which were placed with others before the Treasury Board on which our recommendations were made and their decision was made. (6:46)

This comment was expanded by the same witness when the cost of the purchase option was raised at a later hearing. In recommending the agreement for 240 Sparks Street the department “judged that the rental rate, excluding the separately identified cost of the option, did permit the project to stand alone. In other words the project’s viability in the department’s opinion, did not rely on the options being exercised.” (13:11)

During the hearing devoted entirely to the review of the four major lease-purchase agreements departmental witnesses appeared reluctant to recognize that an element in the rental rate being paid related in any way to the cost of obtaining the option. Pressed for a more realistic analysis of the total Crown commitment in each of these agreements, the true comparable costs were established and later confirmed in a summary sent to the Committee (see Table 5 on page 88). This evidence substantiated the observation made in the submission from the Canadian Institute of Public Real Estate Companies (CIPREC) quoted above that lease-purchase agreements result in a higher rent than a straight lease because the developer is not only obtaining “a return on his equity” but amortizing “the equity over the lease term.”

In the circumstances prevailing at the time the agreements were made, Mr. Williams was of the opinion that the alternative to the lease-purchase of these four buildings would have been to lease space, not to Crown-construct. (1:76) Did Public Works then get a good deal in adopting the lease-purchase

---

<sup>18</sup> Replacement cost estimates including land for each of the four projects at the date Public Works entered into the lease were later submitted to the Committee. This at least provided a basis for judging what the buildings would have cost if the Crown had constructed them. The total amounts were: Les Terrasses de la Chaudière, \$142,218,000; L’Esplanade Laurier, \$53,790,000; Place du Centre, \$25,732,000; 240 Sparks Street, \$83,824,000.

TABLE 5  
RENTAL RATES SUMMARY (JUNE 1977)

Building	Contract Rental Rate	Additional Rent (including O&M) and Crown Investment	Total Rental Cost	Date of Full Occupancy	Estimated Market Rental Rate as of Date of Occupancy*	
					Estimated at Time of Contract	Latest Estimate or Actual
L'Esplanade Laurier	\$6.95	\$3.18	\$10.13	October 1975	\$ 8.65	\$ 8.65 (actual)
Les Terrasses de la Chaudière @ 10% @ 11.1%	\$ 9.18 \$10.18	\$4.49 \$4.49	\$13.67 \$14.67	October 1978 October 1978	\$13.50 \$13.50	\$10.70 (est.) \$10.70 (est.)
240 Sparks	\$ 7.04	\$4.33	\$11.37	September 1977	\$11.64	\$10.35 (actual)
Place du Centre	\$ 7.33	\$4.25	\$11.58	December 1977	\$11.64	\$10.35 (actual)

\*Market rental rates — quoted for newly constructed buildings in the central core area of Ottawa. Terms — 5 year lease, 3 -one year options, \$4.00 tenant improvements and operation and maintenance costs included.

Source: Letter to the Chairman, June 16, 1977.



agreements as an alternative to straight leasing or did they pay an unreasonable amount for the option to purchase? It is clear from the summary that as of June, 1977 the rent including the cost of the option to purchase substantially exceeded the actual market rental rates for comparable new buildings.<sup>19</sup> However, these proved to be lower, substantially in some cases, than the rates forecast at the time of the submissions to Treasury Board because in the interval rental rates have levelled off in the Ottawa-Hull area.

The Committee concluded that even at the time of their signature, the economic benefits of these agreements were questionable. In the light of the subsequent movement of rental rates in the National Capital Region, the agreements are clearly costly investments for the Crown. Admittedly it was unreasonable to anticipate the decline in rental rates resulting as it did from sudden changes in government policy which sharply modified growth trends in the public service in Ottawa. However, even allowing for this factor, the Committee was not fully satisfied with the explanations which it received regarding these agreements. The decision to proceed appears to have rested on other than purely economic considerations. To a certain extent, particularly in the case of the two negotiated agreements in Hull, Public Works seems to have been directed to participate with the National Capital Commission in the joint development of the sites as part of the latter's plan for the development of the National Capital Region. Public Works, however, will be solely responsible for the additional costs over the entire life of these agreements and its credibility for prudent management of federal real property resources will have been somewhat damaged.

### Conclusions on Future Commitments to Lease-Purchase Agreements

Public Works has no plans at this time to enter into further lease-purchase agreements of the cost and size of the four major ones examined by the Committee. This is not because departmental policy has changed, but merely as one official explained "it is a fact of life at this point in time." (13:34) Nevertheless, at the final hearing the Minister of Public Works, Mr. Buchanan, stated that his department will continue to use the lease-purchase method to acquire accommodation from time to time.

I consider the lease-purchase method of acquiring inventory to be consistent with the 'privatization' policy. In its simplest form, lease-purchase is merely an opportunity to acquire property while taking advantage of the private sector's ability to provide its initiative, resources and financing capabilities. (21:11)

The Committee's enquiry into the details of the four lease-purchase agreements made in the Ottawa-Hull area brought out evidence that these

---

<sup>19</sup> See note \* in Table 5 on page 88. The Committee asked an independent real estate agent to verify the actual rates quoted by DPW and he has confirmed the accuracy of the figures.

agreements have committed Public Works to paying rates for this space well beyond the prevailing private sector level. The two agreements for the buildings in Hull have brought the department's judgement into question in parliament and the press. In entering into them the department, with the approval of the Treasury Board, failed to observe precautions taken as a regular course in all other projects for the acquisition of space. No tenders were called and proposals made by the owners for space not yet in existence were accepted. When asked why the land was not expropriated Public Works officials avoided giving an answer and referred the question to the National Capital Commission which it was said was "responsible for all site acquisitions in the National Capital area." (13:38)

**Given the circumstances of that time—the intense demand for space by the federal government—the lack of capital funds to permit Crown construction and the legitimate desires to obtain firm costs in a highly inflationary environment and to control the architectural development of the National Capital Region—it is understandable that DPW entered into the four Ottawa-Hull lease-purchase agreements. However DPW, with the approval of Treasury Board, failed to observe precautions taken as a regular course in all other projects for the acquisition of space. The Committee's inquiry into the details brought out evidence that these agreements have committed DPW to pay rates for the space involved well beyond the prevailing private sector level.**

### **Precautions to be Taken in Negotiations for Future Lease-Purchase Agreements**

If in the future DPW proposes to enter into further large lease-purchase agreements the Committee has several observations to make on how they should be handled based on its review of the department's previous experience.

First, the lease rate itself should be competitive with the general market rates for straight leases. The cost of the option to purchase should be entirely provided for in the option price, in a lump sum payment as opposed to being incorporated as an element of the lease rate. Public Works can then decide to exercise the option if it is judged worthwhile to do so, that is if the additional rent represented by discounting back the option price is not found to be excessive. For example, for Les Terrasses de la Chaudière the \$54 million option price works out to only an additional rent cost of 15 cents per square foot when discounted back at 9-3/8% over 35 years. The cost of the additional discounted amount on the real rent DPW is to pay over the duration of the agreement should be displayed in any submission to the Treasury Board so that a true comparison may be made with the prevailing market rent for similar accommodation.

Secondly, the option to purchase should be available to the Crown at suitable intervals throughout the lease term well before the end of the economic life of the building.

Thirdly, the cost of financing the project to the developer should be arranged at or near government interest rates and appropriate mechanisms to facilitate this should be developed. There are interesting precedents. The Ontario Hydro Commission in its lease-purchase agreement with Canada Square Corporation for its new head office on University Avenue in Toronto made it possible for the developer to secure a low rate of interest by agreeing to make the rental payments directly to the mortgagee, thus providing unusual security for the loan. An advantageous rate might also be provided to a developer entering a lease-purchase agreement with Public Works if a government guarantee to repay the mortgage was written into the agreement. If this rate is achieved the rental rate should be lower than the market rental rate.

Provided all these precautions are observed and the details of the option price are made public, the Committee is satisfied that retaining an option to convert a leased property into a Crown-owned asset can be advantageous. Moreover, the Committee is confident that the wisest precaution would be to make DPW revenue dependent because this decision would greatly enhance the incentive for the department to make the best possible deal in any future lease-purchase agreement.

**The Committee recommends that Public Works consider lease-purchase agreements for the provision of accommodation in future only on condition that**

- a) the rental rate specified in the lease-purchase agreement is itself competitive with the general market rate for straight leases;
- b) the cost of the option is entirely contained in the amount to be paid upon the exercise of the option;
- c) the option to purchase may be exercised at stages prior to the end of the agreement and during the useful life of the leased premises; and
- d) a way be found to permit the development of the property concerned at or near government interest rates, provided that the lease rate reflects this saving.

### **C. THE DEPARTMENT'S PREFERRED OPTION: CROWN-OWNED ACCOMMODATION**

Federal government facilities are for the most part located in Crown-owned premises. Two-thirds of the space under the control of Public Works is owned (53 million square feet), one-third leased (including that which may ultimately become Crown-owned through lease-purchase). An existing building is sometimes purchased but Crown construction is the usual route chosen. In addition to the design and construction of space for its own inventory, Public Works annually constructs specialized facilities for other government departments. Capital expenditures under the DPW Accommodation Program during the fiscal year 1977-78 were estimated to be \$300 million, while the Main Estimates 1978-79 included a reduced amount of \$248,530,000. In 1976-77,



\$235,868,000 was spent by DPW on capital projects under the Accommodation Program, (see Table 1 on page 1) while work undertaken on behalf of other government departments and paid for from their appropriations totalled \$201,848,000.

### **Purchase of an Existing Building**

At stage 2 (Feasibility) in the nine stage Project Delivery System, the purchase of an existing building is proposed as an alternative to Crown construction. Present procedures require that any proposal to purchase a building must indicate the full cost of remodelling and renovating the existing premises to meet current government standards. This solution has been adopted only in special circumstances. Two recent purchases were the LaSalle Academy on Sussex Street, Ottawa, acquired and renovated for office use in support of the wider policy of preserving the heritage quality of that street in the National Capital, and the Metropolitan Life Building and others purchased to protect Parliament Hill and provide for the expansion of parliamentary facilities.

The Committee considered this alternative of purchase. The brief from A.E. LePage Ltd. suggested that the purchase of an existing building would likely result in a lower per square foot cost than if the government built its own building. "The building efficiency would probably be high, providing more usable space for the money invested than in a typical government-built building." (20A:4)

Company representatives told the Committee why this suggestion had been made. If a new building was available for purchase the government "would have instant occupancy" and "would potentially have all of the economies that a developer might have put into that building." (20:31) In some cities buildings might be available for purchase in key locations not otherwise available to Public Works because the property had been acquired for private sector development. It was acknowledged that the price paid by the government for an existing building would include the developer's profit, but it was suggested that in the present market situation where there is an over-supply of office space "the developer might be happy to get out with perhaps a minimum of profit." The arguments in favour of purchasing were made for relatively new buildings which would require minimum additional expenditure for public service occupancy. On a three-year old building it was argued that "you do not have to pay for the inflationary factor that would take place if you were to start with the construction of that building today." (20:31)

The oversupply of office accommodation in many major urban centres today does provide DPW with increased opportunities to purchase an existing building as an alternative to Crown construction. However, the viability of each opportunity would depend on local market conditions prevailing at the time the sale was negotiated. DPW should seriously consider the purchase of



an existing building as an alternative to Crown construction in situations where lower costs over the life of the facility can be anticipated.

### **The Crown Construction Process**

The Crown construction process was discussed by the Committee on the basis of a paper submitted by DPW describing the procedure with which it was experimenting.<sup>20</sup> In full force only since September 1977, it forms part of the nine stage Project Delivery System designed to standardize procedure in the provision of accommodation and to ensure that all the necessary analysis and documentation is available to indicate why particular decisions were made. Quite simply the Project Delivery System defines what has to be done and allocates the responsibility for particular activities to the appropriate levels within the departmental organization. In fact all the activities identified in the Project Delivery System had long been required by the department. (See chart "The Project Delivery System" on page 94). The first three stages of the Project Delivery System essentially relate to the planning process and have already been reviewed earlier in this Chapter. The departmental paper pointed out that in the Crown construction process "the central implementation role is played by the Design & Construction branch."

The Design & Construction branch contributes to the definition and the feasibility study of the various options for the provision of accommodation covered by stages 1 and 2. But its involvement really begins during stage 3, Project Definition, when the requirements are refined and set out in the Project Brief in sufficient detail to permit design (or lease implementation) to commence. Involvement at this stage is not restricted to in-house staff. DPW may engage private architectural or engineering consultants to prepare the Project Brief for complex projects. (6:12)

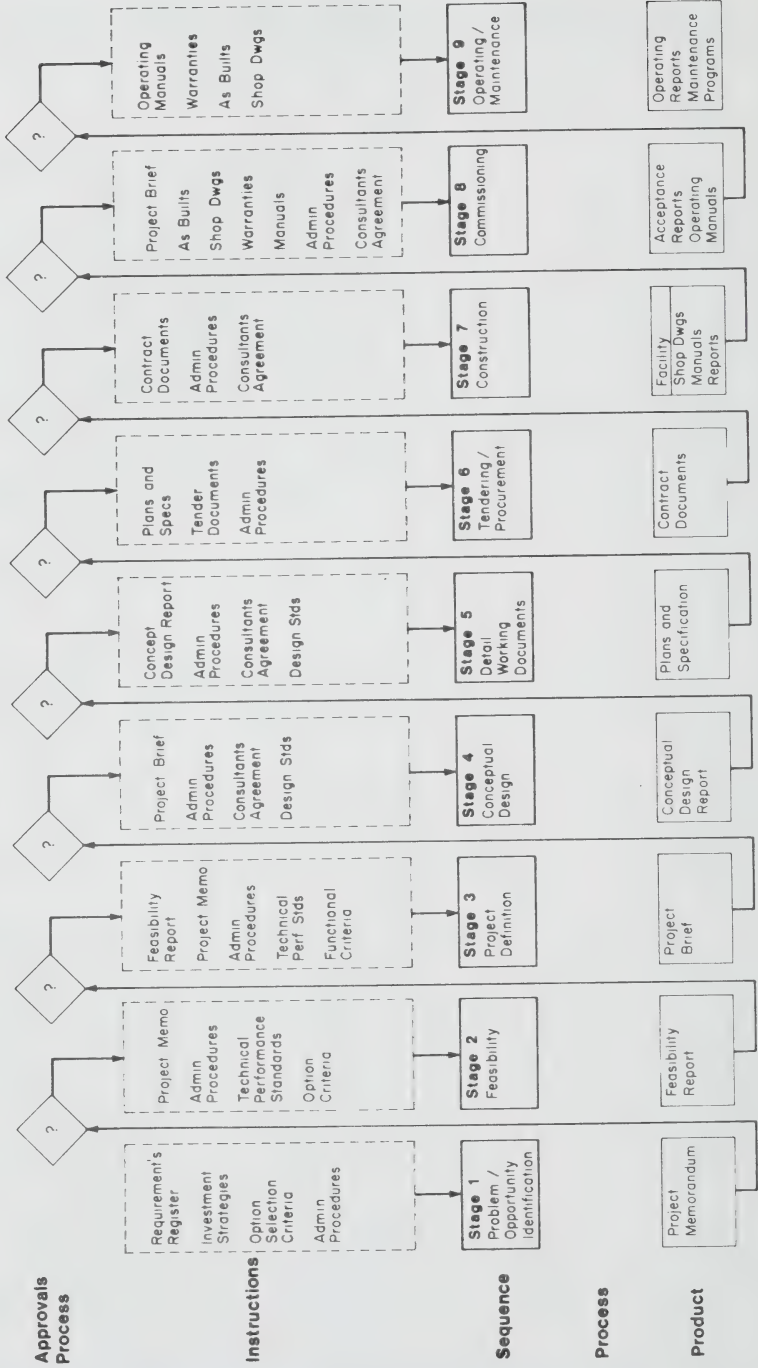
The Project Brief contains the supporting information on which formal approval to proceed with the proposed solution—to lease, lease-purchase, build or Crown-construct—is based. Departmental witnesses stressed that no detailed design of a proposed federal building would begin until the Project Brief had been reviewed at the appropriate departmental or Treasury Board level, approval had been granted and funding guaranteed. "Project approval is the term that says, 'yes, the money may be spent on this project.' " The cash flow, over the period of years is also confirmed at this point in time (6:26)

If the Crown construction solution has been approved as proposed in the Project Brief, stage 4, Conceptual Design follows. The department may do this entirely with in-house staff or through outside consultants or by a combination of staffs. The design solution is subject to review through DPW's internal

---

<sup>20</sup> Department of Public Works, "DPW Crown Construction Process", a paper prepared for the Standing Senate Committee on National Finance, Ottawa, October 7, 1976; see proceedings #6, February 1, 1977

The Project Delivery System



design approval process, and through an internal approval process by the client department if funded by them. In addition the design of federal buildings must be cleared through a series of external (municipal and provincial) regulatory bodies. The departmental paper describing the Crown construction process notes that "although as a federal agency the department is not legally obliged to submit to non-federal controls and regulations, it is the department's normal policy to conform."<sup>21</sup> In Ottawa-Hull all design proposals for Crown-owned buildings must also be submitted to the National Capital Commission Advisory Committee on Design for approval.

Stage 5, Detail Working Documents, stage 6, Tendering/Procurement and stage 7, Construction, follow in sequence. The direct involvement of the Design & Construction Branch is concluded at stage 8, Commissioning, when the building is judged ready for occupancy and is taken over from the construction contractor. It then becomes the responsibility of the Property Administration branch for Operating/Maintenance (stage 9).

### **Project Management**

It must be emphasized that although distinct stages in the process are identifiable, the key to the management of the Crown construction process in the Department of Public Works at the present time is "Project Management". The department is organized and staffed to ensure that all projects whether designed "in-house" or by consultants are carried out on a project management basis, whereby one person is responsible for delivering a project on time, within budget, and within defined perimeters of quality.<sup>22</sup>

The assignment of project managers to each Crown construction project is an essential element of the Project Delivery System. Project managers are to be staff members of a high level of professional competence from the Design & Construction Branch at the regional level. One individual may in fact act as the project manager for several projects at various stages in the Crown construction process. In presenting the DPW concept of the role of project manager, Mr. Desbarats, the ADM Design & Construction, noted that "Many conflicts of jurisdiction arise around this term, depending on the definitions of authority that are to be vested in a project manager." (6:7) Public Works has an in-house training program to prepare staff to undertake project management.

A brief from the Association of Consulting Engineers whose members are frequently employed as project managers in the private sector made the following statement about project management.

Project management can be applied to any project consisting of the design and construction of a physical entity such as a building, factory or production, transportation or communication facility. It is a highly effective management tool by which a client identifies clearly a central point of overall integrated responsibility with direct control over all activities involving the implementation of a given project from initial concept through design, procurement, construction and commissioning. The essence of Project Management is planning and control on a scale which embraces the entire project. While Project Management is one of many ways of

---

<sup>21</sup> Ibid.

<sup>22</sup> Ibid.

delivering a project, and its content can vary from one company to another, it was basically developed to deal with complex situations.<sup>23</sup>

The project manager is a part of the project team from the beginning, and when the focus shifts to one specific solution during stage 3, Project Definition, the project manager assumes a leadership role in the team. Some of the activities assigned to him at this stage are: commence external relations activities, gather detailed user needs, gather detailed physical data, gather detailed resource data, prepare content plan, conduct financial analysis, make necessary modifications, select procurement process, prepare project approval submission, expedite approvals, assemble general project information section, document content plan, assemble design data package, assemble Project Brief.

When the project is approved and goes into stage four, Conceptual Design, the project manager works with the design team. Mr. H. D. McFarland, Director General of the National Capital Region, described the project manager's subsequent activities:

...He has the overall responsibility for co-ordinating the input into the design, making sure that what is in the specifications and drawings meets the client's requirements, or if we are our own client, our requirements. During the construction phase change orders will arrive from time to time as a result of requests of the client, site conditions, errors or omissions in the plans and specifications, delays in delivery of a certain type of material or type of hardware, and the contractor will suggest a substitute. The project manager, to work effectively, virtually must have full departmental authority, and we try to do that. He will approve, for example, a change order requesting a change in material, if that change is still in accord with the general quality requirements that we are trying to achieve through the plans and specifications. (6:30)

It is important for a complete understanding of the function of the project manager in Public Works to note that for some very large complex projects the project team may also include two supporting managers, a design manager and a construction manager, either of whom may be hired under contract from the private sector. This occurs particularly when it is decided to employ phased construction on a project. In this event the project manager remains as the leader of the team, but the construction manager on his behalf and for a fixed fee plus disbursements, organizes, coordinates and directs the activities of all the trade contractors on the site.

The Committee's discussion of the management of Crown constructed projects was based on the department's recently drafted Project Delivery System which at the time was in use only in some pilot projects. The situation was accordingly a little confused with some criticisms and comments relating to the situation which pre-dated the new System.

The Committee concluded that the department's decision to appoint a single project manager to be responsible for leading projects from the conceptual design phase through the commissioning was a badly needed innovation, modelled on private sector practice. Previously a project had advanced through

---

<sup>23</sup> J. J. Heffernan, President, Association of Consulting Engineers of Canada, to the Chairman, October 6, 1977. Extract from the Association Brief to the Treasury Board, September 14, 1977



the same conceptual stages, but no one person had responsibility for coordinating the various steps and for hastening the project's passage. Therefore, apart from delay, there was formerly a serious risk of loss of consistency, with the specialists at each stage of decision-making pressing for the application of concepts to which they attached importance. As a result in the past, compared to private sector developers, Crown constructed projects proceeded unnecessarily slowly lacking the cohesion which the presence of one continuing departmental authority for project decisions can give. If, as it appears is the case, the project manager is given the commanding role on the project team and is supported in that capacity by senior management the appointment of departmental project managers should bring significant improvements in the quality, unity and speed of delivery of Crown constructed projects.

**The Committee concludes that the Project Delivery System now in force in the Department of Public Works will significantly improve the process of Crown construction. Individual DPW project managers appointed to oversee each construction project through the Project Delivery System should be accorded full support in their leadership role from senior departmental levels of authority.**

### **Should Private Sector Consultants be Hired as Project Managers?**

The DPW project manager therefore works with both his own public service colleagues and with the contract consultants involved in all aspects of the design and construction of the building. The authority vested in this new position was obviously not fully understood by the private sector professional associations. The Association of Consulting Engineers of Canada made representation to the Committee that Public Works should make greater use of the private sector to undertake project management. (18:44) The President of the Association suggested in testimony that ideally a consulting engineer working under contract to DPW as a project manager could take over at the concept stage. DPW's staff then could come back "to open the door when the building is finished." (18:25) However, further questioning elicited the comment "if you ask for a definition of project management from ten men in the room, they probably will give you ten different definitions...probably "owner's agent" is as good as any. The real project management approach is to expedite a project...he must be able to make quick decisions." A project manager has to have a clear mandate because "that is where you save money—by fast decisions." (18:44/45).

Testimony about corporate experience with project management was given by the representatives of Bell Canada and the Royal Bank of Canada. Both companies hire outside professionals to supervise the construction of their larger projects. However, the Bell Canada witness confirmed that project management by Bell officials means that while a construction manager may be

hired early in the design process, "the final and total control of all aspects" of the project is retained by the company in-house staff. (25:44)

The role assigned by DPW to a project manager under the Project Delivery System clearly establishes him as the owner's agent, even though the owner is a government department which is the largest developer in Canada. Public Works officials insisted that regardless of the department's desire increasingly to utilize the expertise of the private sector there is a "certain project management function that our department cannot delegate entirely to outside consultants, while still remaining accountable to government and professionally responsible to the public." (6:7)

**The Committee supports the position taken by the Department of Public Works that on Crown construction projects for which Public Works must take full responsibility, a departmental employee must occupy the position of project manager. Private sector consultants should be hired as subordinate design and construction managers only.**

### **Tendering and Construction**

Stages 6 and 7 of the Project Delivery System cover the selection of the contractor and the construction of the building. The Department of Public Works has no construction equipment or staff of its own, with the exception of a dredge fleet and local maintenance staff. (1:66) Construction of public buildings is always carried out by private contractors who are invited by public advertisements to bid competitively usually on a set of complete plans, specifications and tender documents, the products of stages 4 and 5 of the Project Delivery System. The department has developed and enforces bonding security deposit arrangements which it is claimed tend "to weed out most unqualified contractors."<sup>24</sup> The department uses the federal government's standard construction contract and its general tendering practices and policies are based on the Regulations Respecting Government Contracts. Regional Directors General have authority to award construction contracts up to \$1 million "as long as the amount involved is within the budget allotted for it, and the lowest tender is being accepted and there is more than one tender." DPW headquarters executive committee may authorize contracts up to \$2.5 million. Above that sum the authority to award a contract rests with the Treasury Board. (1:67)

The departmental paper stated that a single firm price contract for the total project has been the traditional contractual method employed by DPW and that in spite of inherent problems DPW has found it to be the most practical approach. Before tenders are called on this basis all the elements of the design are pre-determined by the in-house or the consultant designer. The contract price is established on a fixed design in open competition and may be

<sup>24</sup> P.C. 1975-2042, 27 August 1975 This description is based on material contained in the departmental paper "The Crown Construction Process" already cited.

compared with the authorized budget before any construction dollars are committed. Indeed, one of the advantages of awarding a single price contract by tender is the comparative information on the prevailing market price for the work that may be discerned from the bid responses. The departmental paper observed that as in the past this method "will continue to be used on the greater number of DPW projects in the future".

DPW cited three problems to be contended with when a single firm contract is to be let. First the design must be as nearly fixed in advance as possible because changes are difficult to negotiate with the contractor. If changes must be made for any reason, they may lead to an inflated price or construction delay. Secondly, increased supervision of the construction is required to assure the quality of the work prescribed in the contract specifications is maintained by any sub-contractors arranged by the successful bidder. The departmental paper notes that this problem has been minimized as DPW now receives all bids for these contracts on a standardized bid depository form approved by the Canadian Construction Association. Finally the firm price bid inevitably includes contingency protection. This is very difficult to estimate and results in either an inflated profit or a loss which creates financial problems for the contractor. Delays and additional costs arising from changed circumstances inevitably arise. The increase in the size and complexity of DPW projects since 1973 combined with the escalating cost of materials and labour has therefore prompted Public Works increasingly in recent years to use an alternative approach.

### **Construction Management Contracts: Phased or Sequential Tendering**

The construction management approach, also known as phased or sequential tendering, is now almost invariably used for DPW projects anticipated to cost over \$10 million and to take over two years to construct. (6:14) Construction commences before the design is completed and instead of one fixed tender for the whole building contracts are awarded in a pre-planned sequence of "packages" as sections of the design work are completed and specifications and tender documents prepared. There are variations in this approach. Projects may be broken down into two or three packages covering major portions of the work such as sub-structure, structure and finishing or into many packages covering each element of the construction and trade employed. Mr. McFarland cited the example of Place du Portage, Phase III in Hull for which there were 160 packages, "each tendered in advance as close as we could to requirement..." (6:15) He noted that the major contracts involving phased construction have been in the National Capital area, although sequential tendering was also used for the \$34 million North York Public Building but with many fewer packages, 69 in all. The construction of the new \$34 million Federal Building for Calgary will require 12 major contract tender packages.

In phased construction a consultant construction manager is usually employed in addition to the DPW project manager. His technical expertise is

available to the designer as the component design packages are being prepared and when compromises in the design must be worked out to keep within the budget. Indeed the Construction Management Contract system requires a more effective team effort which in turn leads to better control over the time factor as well as better control over the budget. At the same time the public tendering principle is preserved in the selection of the trades contractors to carry out the actual construction under the direction of the construction manager.

Public Works acknowledged that certain disadvantages might be seen in this method of awarding construction contracts as well. The final price is not known until the last trade contract has been awarded. The department, represented by the project manager, must take a much more active administrative part in all phases of the project. These supposedly disadvantageous factors could equally well be made to work to the advantage of Public Works. The construction components making up the individual contract packages can be estimated quite accurately, evidently even at an early design stage. Phased tendering permits the use of what one private sector architect has called "a design budgeting system" through which the designer and the client (in this case either DPW or another government department) can reallocate costs to keep within the established budget by changing the design. "From the architects perspective the system has great advantages. He avoids the legitimate irritation of the client when the tender bids come in above estimates and budget. But of equal benefit is the ability to use the system as a means to realize design creativity."<sup>25</sup> These advantages would seem to outweigh the additional overhead costs arising from closer supervision of the construction and the preparation of more than one tender call.

### Criticism of DPW's Use of Phased Construction

At the hearing on the design and construction function of DPW, departmental officials were asked if they had encountered any criticism about the use of the phased construction approach. Mr. McFarland replied:

We have had nothing from the industry, other than from the contracting profession in general where they say that, given our construction management program, we may be infringing upon the role of the general contractor which is a role that is really assumed by the project manager and the construction manager on phased construction. (6:15)

The brief submitted to the Committee by the Canadian Construction Association, a national organization of general contractors, trade contractors and developers, however, was particularly critical of the use of project management, construction management or phased construction by Public Works. Continued use of this procedure would "only lead to duplication of staff and services, reduction in the effectiveness of the private sector, increased govern-

<sup>25</sup> A. J. Diamond, "Taking Risks Out of Design", *The Globe and Mail*, December 28, 1977



ment programs and staffing, within a less competitive and efficient atmosphere and all at an increased cost to the taxpayer." The Association recommended that the federal government acquire all its accommodation space as before by calling for "public lump sum tenders for construction of new accommodation."

The use of phased construction was also discussed at the 1977 joint meeting of the Canadian Construction Association and representatives of the Treasury Board together with representatives of all federal government departments having construction facilities including Public Works. Public Works' officials gave assurances to the meeting that the concept of phased construction would only be used in cases where it is imperative to arrive at an early completion.<sup>26</sup> Similar assurances were given at the Canadian Construction Association Annual Meeting in July, 1977 where a DPW speaker pointed out that "the department digresses from traditional single firm price contracts only because of constraints of time and inflation, forcing it to use methods such as phased construction. and construction management"<sup>27</sup>

DPW evidently intends to be cautious about extending its use of phased construction. During the visit to the Western Region office, the sub-Committee was told that instructions dated June, 1977 require that regional offices obtain permission from headquarters each time they wish to use sequential tendering. In fact at least two large buildings in the Ottawa-Hull area have been recently built at a cost of \$15 million each under stipulated sum contracts let by public tender.

Such caution may be unwarranted. The Committee agrees that there are cost risks in taking a staged development approach. However, DPW has been faced with an extraordinary situation during the period of extensive construction activity brought about by the rapid growth of the public service. The department has pointed out (in a reply to criticism of DPW by representatives of client departments who met the Committee) that from the beginning of 1970 to the end of the first quarter of 1977 building costs escalated approximately 93 percent on the national average and the department's forecast was that by the beginning of 1978 the percentage would exceed 102 percent.<sup>28</sup>

**The Committee recommends that Public works should continue to use phased construction when time and cost circumstances indicate that this approach will permit the construction of required space to be completed at lower cost than would be possible if the customary single firm price contract was used.**

---

<sup>26</sup> Canadian Construction Association. Minutes of the 11th Joint Government of Canada and Canadian Construction Association meeting on Contract Administration Practices, February 24, 1977

<sup>27</sup> Canadian Construction Association, *Construction*, August 1977, p. 16

<sup>28</sup> Letter to the Chairman from J. H. MacKay, June 23, 1977

### **Specifications Used By DPW**

Another aspect of the tendering process which was discussed during the hearings was the type of specifications used in the tender call. It is the practice of Public Works to use rigid specifications, in other words DPW specifies the exact item to be used. The alternative in the private sector is to use performance specifications which merely state what the item must do. A developer uses performance specifications in order to allow the various subcontractors to choose the most economical material to meet the criteria outlined in the performance specifications. It was acknowledged, however, by private sector witnesses that the federal government does not have as much flexibility as a developer in setting out its specifications.

When asked whether Public Works would be inclined to move to performance specifications and away from rigid specifications, the Minister replied that such a step would open the department to charges of favouritism. (26:21) When a rigid specification is used, there is consistency in the quotations to be analyzed by Public Works.

The current system of using rigid specifications fulfills the criteria that each bidder has an equal opportunity to bid on the same item. However, this system may result in increased costs since it does not permit the substitution of acceptable but less expensive alternatives by the contractor. Federal agencies in the United States have applied a concept known as "value management" to this situation. Construction managers carry out studies of the design and specifications and recommend substitutions or challenge non-essential or high cost requirements in order to reduce the cost of the project. Studies made by construction managers have proven to be especially worthwhile because they have extensive and current knowledge of construction materials. Studies are either paid for directly or the contractor is given a share of any savings resulting from the acceptance of his recommendations. A great deal has been written about the application of value engineering to many aspects of the design and construction process in the United States which Public Works might profitably explore.

**The Committee recommends that DPW review its policy regarding specifications used in its tender documents and in particular give consideration to the addition of financial incentive clauses in its construction contracts to encourage successful bidders to find acceptable lower cost alternative materials and thereby share in any savings realized in the total cost of the construction.**

### **Must Public Works Always Call for Tenders?**

Earlier in this chapter the Committee commented on the relatively recent policy which requires DPW to seek competitive proposals for space it wishes to lease in excess of 5,000 square feet. It was suggested that there are disadvan-

tages in doing so and that competitive proposals should only be called when space requirements are for a substantially greater area. Under the *Public Works Act* (R.S.C. 228, s. 36) contracts for construction projects however must be let by calling for competitive proposals. *The Financial Administration Act* (R.S.C. 116, s. 34) authorizes the Governor-in-Council to make regulations about the conditions under which contracts may be entered into. Part one of the contract regulations set these conditions quite specifically for all departments of government. Special conditions are set for construction contracts let by Public Works, Defence Construction (1951) Limited and the Department of Indian and Northern Affairs.

It is not an invariable rule that DPW issue a public call for tenders. Emergency situations may be met by inviting those most qualified to act immediately to undertake the work. Mr. Williams also testified that the department "may undertake by invitation...rather than public advertisement", but he qualified this by noting that such an invitation was a form of tender (1:66). Asked if there was any rule that the lowest or best bid must always be accepted, Mr. Williams made the following response:

The best yes; the lowest, not always. First of all the contractor in question must be able to meet all the requirements of bonding, insurance, and so forth; and secondly, if he has lack of performance on previous work, we are in a position to bypass. If we bypass the low tender, we are required to have Treasury Board authority. (1:67)

This is the job of the Contract Review Division of the Treasury Board. Officials explained that this division does not develop policies. It has the responsibility "to provide advice and recommendations to Ministers of Treasury Board on all submissions that come into Treasury Board seeking authority to enter into contracts for the procurement of goods and services, construction and so on." (9:17)

The requirement that competitive proposals be sought is of course in contrast with the private sector. Public tendering is not used by either Bell Canada or the Royal Bank. Representatives of these organizations explained that they invite bids from lists of five to ten names selected in each trade for proven competence. In small towns Bell Canada includes both local and outside firms on the selected list but Mr. Thornton said that "generally speaking, anyone in town who has the competence and with whom we have never had a bad experience can go on the list." (25:32) The number of bidders is restricted because the company "simply cannot analyze 100 bids on one project." (25:33) Mr. Arsenault of the Royal Bank gave the same reasons for restricting the number of bidders, usually five in the case of the Bank. Both companies habitually accept the lowest bid since they do not allow anyone on the list they are not prepared to accept. (25:21)

Private sector companies are free to negotiate with contractors and may end up with a lower price from a contractor who hopes to attract further business. Public Works, because it is spending public money is required by the



regulations to treat everyone in an equitable manner, and the tendering process has been designed to achieve this. The Glassco Commission looked at the practicality of this exercise of public probity and contrasted it with the experience of other governments.

The practice of inviting public competition is so generally accepted that perhaps too little thought has been given to some of its disadvantages. While it is essential that the public interest be protected from improper influence in the award of public contracts and from possibly exorbitant costs which may result, it has been found in other countries and in some provinces of Canada that other methods of selecting contractors may prove satisfactory. The method adopted is to provide for the pre-qualification of contractors and to limit to such groups the invitations to tender on public work. To be acceptable, a scheme of this sort must be conducted in strict isolation from the political process, access must be open to all who wish to apply, and the standards adopted for the judgment of an applicant's qualifications must be fair and objective.<sup>29</sup>

The Glassco Commissioners did not make a formal recommendation that public invitations to tender be partially or completely abandoned. However they urged Public Works to make an objective appraisal of the matter. The Treasury Board Advisory Committee on Contracts, of which Public Works is a member, is now the appropriate body to make such an appraisal. Mr. M. A. Lafontaine, Deputy Secretary of the Treasury Board, explained that this committee was created to develop policies pertaining to the whole procurement field and to advise the Treasury Board on changes. (9:6) While Public Works in particular has been given a larger dollar discretion in awarding contracts without reference to the Treasury Board in recent years, tendering practices have not been significantly altered. The Committee suggests that as an alternative to, but not a substitute for current competitive proposals, selection of contractors from lists of pre-qualified companies might be considered. Throughout its strengthened regional organization Public Works already has available a full and extensive record of those local contractors qualified by past experience to undertake DPW contracts. Since the quality of workmanship could be expected to be high, performance specifications could be safely used for projects commissioned in this manner.

The Committee agrees that Public Works must seek competitive prices before it lets any construction contract. This may be done as at present by an open call for proposals based on detailed specifications contained in the tender documents. There may however be instances where projects could be more efficiently constructed from performance specifications if some restriction by way of pre-qualification is placed on those invited to bid.

**The Committee recommends that the Treasury Board amend the existing Government Contract Regulations to permit the selection of building contractors from authorized lists of companies whose qualifications to undertake the work have previously been established by reference to previous comparable experience in construction projects of similar scope. This method of selection**

---

<sup>29</sup> Canada, *Report of the Royal Commission on Government Organization*, Volume 2, "Supporting Services for Government" Ottawa, 1962, p. 51



would be used where projects could be more efficiently constructed from performance specifications rather than detailed specifications.

### **Is Crown Construction the Preferred Solution?**

In providing accommodation DPW has to decide whether it should obtain that accommodation by leasing it from others; by leasing it with an option to purchase; by constructing it on federally owned land; by purchasing previously constructed accommodation from others or by the many variations on these main themes. It is important that these decisions are made without prejudice towards any one method and are based on a sound examination of all the facts. As the Royal Bank said of its real estate decisions, "Each situation is assessed on its own merits in relation to economics including return of investment, potential risk, inflation and deflation calculations, project size, flexibility, market conditions, tenure, local considerations etc." This should be Public Works attitude as well.

There is a prejudice in DPW in favour of the Crown construction solution. This may be due to a number of things such as the composition of the DPW staff; a reaction to the necessity to provide accommodation by leasing in the period when the federal government was growing rapidly; a perceived need for a federal presence or even a feeling that wherever possible the Crown should own its accommodation.

While single purpose buildings required to accommodate special federal services should normally be Crown constructed and owned, the issue is less clear for general purpose buildings which by definition have alternative uses. Crown construction is preferable to lease or lease-purchase when there is a long term requirement for a large space or where it is judged appropriate to project the image of the federal government in a prestigious manner. This is especially so since the usual spread of interest rates on long-term borrowings by private interests and the federal government is 1 per cent or more in favour of the federal government. Further, the probability of inflation argues in favour of Crown construction. If intended for occupancy by federal departments throughout the life of the facility and built to this standard, Crown-owned buildings will increase in value through inflation. This will tend to offset eventual renovation costs.

Crown construction of general purpose office accommodation may even be justifiable when the commitment over a long term cannot be guaranteed. In this case the design of the interior plan and amenities should be compatible with the standards in neighbouring private sector office buildings, so that the space could be sold or leased to the private sector in the event that DPW's need for space terminates prior to the end of the useful life of the building. This point was made in the brief presented by A. E. LePage Ltd.

There are several examples of buildings that have been designed for single tenancy use that cannot be easily marketed on a multi-tenancy basis after the single tenant leaves. It is safe to say that the further building design deviates from the standard rectangular functional design, the more difficult it is to market to the private sector on a rental basis. Most larger government departments are now using open space planning. Buildings designed for this purpose are not always suitable for conversion to a more traditional office layout. The private sector does not presently and is not expected to use open space planning to the same extent as governments. This should be kept in mind during design of a building if it is anticipated that the government might vacate the space in the future. (20A:2)

This is a point worth considering particularly if Public Works as the central realty organization of the federal government becomes revenue dependent. It will then, even more than under the present circumstances become desirable to have the option to dispose of unneeded accommodation by rental or sale to the private sector.

Crown construction is also preferable to leasing space when it is desired to present a distinctive federal presence through the deliberate addition of prestige factors in the building design and its interior and exterior decoration. However, there is a limited need for this type of accommodation. Where utility office accommodation is required either leasing or the purchase of an existing building should always be considered first.

DPW has to make its own decisions, subject to Treasury Board approval, based on the facts in each case. The Committee cannot presume to tell them how this should be done. All it can do is warn against prejudice towards any one solution and to urge that DPW should take into account all the considerations outlined above in arriving at its decisions.

**The Committee concluded that Crown construction is justified for single purpose accommodation required for special federal services and activities. General purpose accommodation may be more economically acquired by lease or purchase of an existing building and the Committee recommends that these two alternatives be carefully assessed in every instance when additional accommodation is required. Crown construction should be considered where there is a long-term need for large areas of space or where the federal presence is desirable. Where long-term government use cannot be guaranteed, Crown constructed general purpose accommodation should be designed so that it could be disposed of for private sector use if the federal government requirement ends while the building still has useful life left.**

### **A Greater Flexibility for DPW**

Mr. Perrier, Assistant Deputy Minister Realty, was quoted in a *Globe and Mail* article dated June 2, 1976 as stating that "about 46% of federal office buildings in Ottawa are leased from private owners—and every one of them costs less than the buildings the Government builds for itself". (13:58) This situation results in part from the constraints under which Public Works operates that do not apply to the private sector. Because DPW is a federal

government department it will necessarily be subject to constraints intended to assure the public that it is conducting its operations with probity. However, beyond these limitations Public Works should be allowed to operate with a flexibility that compares with that of a private developer. If it is, the Committee is of the opinion that DPW can provide accommodation competitively with the private sector. To ensure this flexibility the Committee has recommended that DPW be designated as the federal government realty development agency operating on a revenue dependent basis.

Under revenue dependency DPW will be required to provide general purpose accommodation to other federal government departments at market rents. This will constitute further assurance to the public that this accommodation is being provided efficiently. With this additional protection Treasury Board would be in a position to permit Public Works more flexibility by implementing the many recommendations in this report removing constraints on DPW. This can be done without jeopardizing Treasury Board's objective of assuring efficiency and probity in the operations of government departments.

As the federal government realty development agency DPW's main thrust should be directed towards the provision of accommodation to other departments on the most effective basis. Accordingly, the organization and staffing of Public Works should reflect its primary role as the federal government realty development agency rather than as a design and construction agency. In these circumstances DPW would not need the services of private developers except in unusual circumstances since it should provide such services itself to the other government departments. By being organized on this basis the Committee believes that DPW will be able to supply accommodation as efficiently as the private sector.





### OUTSIDE CONSULTANTS AND HOW TO SELECT THEM

The Department of Public Works has on staff a number of architects, designers, engineers and other professionals. Together with the related support staff, they are paid from the Professional and Technical Services program vote. In 1976-77 total expenditures chargeable to this vote were \$35.5 million of which nearly \$30 million was a direct cost of salaries.<sup>1</sup>

#### **In-House Staff or Outside Consultants?**

Briefs and testimony by two national associations of architects and engineers, the Royal Architectural Institute of Canada (RAIC) and the Association of Consulting Engineers of Canada, contended that there had been a build-up of in-house professional staff in Public Works and elsewhere in government. Similar complaints were received from individual firms of architects and engineers. The professional associations have been active in lobbying the Cabinet and the Treasury Board to consider increased purchases of architectural and engineering services from the private consulting firms who make up their membership.

The Department's position on the use of in-house staff in the work of the Design and Construction branch was given by the former Deputy Minister, Mr. Williams, in his first meeting with the Committee.

In carrying out its task the Department uses a combination of services purchased from the private sector and its own in-house capability... We cannot be dependent exclusively, of course, on the private sector if we are to meet the level of our ongoing work load and, more importantly, if we are to sustain a high standard of professionalism and stay abreast of modern technology in our field. (1:9)

The Committee questioned the Assistant Deputy Minister, Design & Construction about the percentage of design work actually carried out by his staff. Mr. Desbarats noted that where there is a confidential aspect which must be preserved or where the work must be done very quickly it is done by in-house staff, but these are exceptional circumstances.

...I do not have the percentage in front of me but most of our buildings are done by outside consultants. There are exceptions to this rule. We often do prototypical work or first phase concept design before selecting the architect in order to test design briefs, to test the objectives of the project. (6:34)

---

<sup>1</sup> Canada, *Estimates 1978-79*, Ottawa, p. 21-12

Actual percentages of in-house workload were submitted to the Committee and have been printed in the proceedings. (18A:12) They were broken down by the size of the project, small (under \$100,000), medium (\$100,000 to \$1 million) and large (over \$1 million). DPW in-house staff carried out 68 per cent of the small capital projects, 51 per cent of the medium projects but only 16 per cent of the large projects.

Another reflection of the amount of work contracted out to consultants by DPW may be found in the Public Accounts where all payments for professional and special services over \$2,000 are listed. In 1976-77 Public Works made 90 individual payments totalling \$14.6 million for professional architectural services and almost an equal number of payments totalling \$10.1 million for engineering services. These totals include payments for the Marine and Transportation Program as well as the Accommodation Program, but it is clear from studying the individual payments that the Accommodation Program accounted for the major share.<sup>2</sup>

An interesting comparison can be made in this connection between the numbers of professional staff in DPW against the totals for each classification in their appropriate bargaining group of the Professional Institute of the Public Service of Canada. Public Works supplied the Committee with a complete breakdown of the numbers in each classification across the entire departmental organization with sub-totals for headquarters and each of the regions as of June 1, 1977. By coincidence the publication of the Professional Institute of the Public Service of Canada, *Communications*, printed the bargaining group count of its members as of the same date. (See chart on page 111)

While this chart supports the suspicion of the Association of Consulting Engineers about the build-up of in-house engineering staff in the overall public service, the Ottawa and region figures indicate that Public Works is not their major employer. The chart supports the suggestion made by the RAIC that architectural design continues to be widely practiced by other government departments who are supposedly clients for this service from Public Works.

### **Use of Outside Consultants by the Private Sector and Other Governments**

Having ascertained the situation with regard to in-house professional staff in DPW, the Committee sought comparative information from other governments and from the private sector. The witnesses who described the B.C. Buildings Corporation indicated that it planned to have a very limited number of professional staff and would contract out about 80 per cent of its work to outside architectural and engineering consulting firms. Mr. Thatcher of the Ontario Ministry of Government Services stated that in terms of the total value of the program of his Ministry about 80-86 per cent is handled by outside

---

<sup>2</sup> Canada, *Public Accounts*, Volume 2, Ottawa, p. 31; 66/67

COMPARISON OF DPW ARCHITECTURE/ENGINEERING STAFF WITH TOTAL  
FEDERAL ARCHITECTURE/ENGINEERING STAFF

Location	Classification	Total This Classification in PIPSC Bargaining Group at June 1, 1977	Total This Classification Attached to DPW at June 1, 1977
Ottawa & Area	Architecture (#203)	145	69
	Engineering & Land Survey (#210)	1,012	180
Atlantic	Architecture	24	10
	Engineering	191	78
Quebec	Architecture	49	22
	Engineering	97	57
Ontario	Architecture	21	18
	Engineering	186	40
Prairie	Architecture	41	15
	Engineering	265	45
B.C. and Yukon	Architecture	16	9
	Engineering	130	41
Abroad	Architecture	—	—
	Engineering	5	—
Total	Architecture	296	137
	Engineering	1,880	441*

\*Note: In addition DPW staff in Technical/Support Categories total 919

consultants. "We use outside consultants for essentially all our major projects." In-house staff is used in Ontario for low-cost projects which would not attract outside consultants and one medium-sized project is always retained in-house for training purposes. (22:38)

Mr. Ink of the U.S. General Services Administration commented that almost no in-house design work was done by GSA staff. In fact the U.S. position is unequivocally in favour of using the private sector under contract for design.

I believe the government can control the quality of a project and the quality of construction without having to design itself provided you have people who know how to write specifications, provided you have people who know how to supervise and administer a contract. I do not support the notion of in-house designers, because they are available on the outside and through the competitive route I think you get quality design. (23:25)

Mr. Ink continued that there was no justification for using in-house staff for actual building design work "unless they can do it much more cheaply." He concluded "I have certainly seen no evidence that you can do it more cheaply by going in-house." (23:21)

The Property Services Agency in the United Kingdom maintains a very large in-house professional staff who design buildings not only for home departments but for the Defence Department and for all British government offices abroad. The Agency is also the largest single employer of building labour in the United Kingdom.

The Committee consulted both the Royal Bank and Bell Canada. Mr. Arsenault, representing the Royal Bank, reported that:

...our volume of work, both in dollars and in the number of projects, varies from year to year. We staff, not to handle the peak on the curve but to handle almost the low point on the curve. (25:20)

Mr. P. Thornton of Bell Canada said:

The basic policy we have is that we have an in-house staff. We have a variation in work volume, which goes up and down. We try to keep our in-house staff at the level where we can accommodate everything below the variations. When we have excess work to do, rather than hire people who may have to be laid off, we go to outsiders for that. (25:14)

From the comments of the four panel members of the Canadian Institute of Public Real Estate Companies (CIPREC) it would appear that, as Mr. Diamond of Cadillac-Fairview said, "every developer has a different method of function." Many retain only a small in-house staff as control designers while others have a design staff of their own but on occasion have design work done outside.

### **Application of a Policy of Privatization by Public Works**

The Committee examined one other factor affecting the question of the extent to which Public Works should rely on its own in-house design capability.



The federal government has recently committed itself, first in the Speech from the Throne on October 12, 1976 and later in the discussion document "The Way Ahead", to what has been designated as a policy of privatization. This, in the words of the Throne Speech, has been adopted "in an effort to reduce the size of government as well as expand the range of opportunities for private enterprise." In fulfillment of this policy "all federal programs will be reviewed to identify those government activities which could be transferred to the private sector without reducing the quality of service to the public."<sup>3</sup>

The present Minister of Public Works defined the policy of privatization in a speech to the Association of Consulting Engineers in May 1977 as "turning over (or returning!) to the private sector, work which has traditionally or habitually been carried out by public servants."

While not restricted to our department, this policy has special significance for Public Works because of our role in the acquisition and provision of services. I see it as a very important part of the Public Works mandate to call as much as possible on the private sector particularly during our present difficult times.<sup>4</sup>

This assurance was coupled with an announcement that in future more of the small projects, that is those under \$100,000, would be contracted out to the private sector. It will be recalled that at that time 68 percent of these small projects were being carried out by in-house staff.

Even if Public Works turns more frequently to the private sector, a core of professional in-house staff will continue to be needed. The Committee has concluded that project management must be performed by in-house professional staff. Apart from a requirement for professionals to handle smaller jobs, project managers must themselves learn through lower level experience. Even the witnesses from the Association of Consulting Engineers acknowledged that some in-house staff would always be needed. "We are suggesting that there is an obvious need for DPW to maintain its staff—they are very senior and competent engineers who will prepare the concepts, manage the programs and manage us." (18:32)

The problem in applying the policy of privatization will be to strike the right balance. At present it is the Committee's view that there is too much reliance on in-house staff for small and medium-sized routine design work and for this reason the Minister's declaration of support for the policy of privatization is welcome.

Recently the Western Region Design & Construction Branch found itself in a situation which illustrates the problems which can arise when a substantial portion of the workload has been contracted out. For several years this Branch did almost half of the work on regional projects in-house. Now the branch has

---

<sup>3</sup> Canada, *Debates of the Senate*, October 12, 1976, p. 2

<sup>4</sup> Speech given by the Honourable Judd Buchanan at the Annual Meeting of the Canadian Association of Consulting Engineers. Quebec City, May 27, 1977

been forced to have nearly 95 per cent of the work carried out by the private sector. This came about because of increased local demand for DPW's services, difficulty in recruiting professional staff at this location and the freeze on authorized man-years allotted to this function. The introduction of project management has meant that professional design staff is increasingly involved in supervisory activities. Concern was expressed to the sub-Committee that enough design work should be retained in-house to provide opportunities for training and career advancement as well as experience which would ensure familiarity with the latest technology in the design and construction field.

This is a legitimate concern. Public Works has in the recent past emphasized the renewal and upgrading of its professional resources so that, as Mr. Williams explained, "not only the departments we serve, but also the public at large, can have confidence in the quality of the services provided through DPW." (1:10)

DPW's relationship with its client departments is undoubtedly complicated by the use of outside consultants. At least one department, Indian and Northern Affairs, indicated that if its work was to be carried out in this way it would prefer to make the contractual arrangements with the private sector directly. Increasing privatization will have to be accompanied by effective control of the team of outside consultants by the Public Works project manager. As the front line contact with the client department he will also have to represent its interests adequately. Otherwise the department's desire to be acknowledged as the primary agent in the provision of federal accommodation and related real property services is unlikely to be achieved.

**The Committee recommends that, in line with declared government policy, Public Works reduce further the share of construction design work carried out by the staff of the department. In the interest of economy, efficiency and the maintenance of in-house expertise for project management DPW should have enough in-house design staff to handle the minimum amount of small and medium projects that can be anticipated will take place each year. Any work in excess of that minimum amount and most projects over \$1 million should be turned over to outside consultants.**

### **The Selection of Consultants**

When Public Works decides to use the services of outside architectural or engineering consultants on one of its projects it is bound by Part 4, section 36 of the Regulations Respecting Government Contracts which covers exceptional contracts. This section permits the Minister to enter into a contract for the acquisition of services required for "the planning, design, preparation or supervision of the construction, repair, renovation or restoration of a work if the amount payable does not exceed i) \$50,000 or ii) \$200,000 and the work has been specifically approved in writing by the Treasury Board". While these arrangements are handled as contracts, no competitive bidding for them now

takes place. DPW maintains a current listing of competent Canadian firms. Any professional architectural or engineering firm can ask to be listed by DPW for consideration when these services are required. DPW uses its internal sources of knowledge about past performance to determine ability to carry out a proposed contract. As Mr. Desbarats explained "because of the size and variety of our construction inventory, we are placed to be particularly well informed about the private sector performance." (6:8) A short list of firms qualified to carry out a project is prepared following consultation in the Department at both headquarters and in the regions but the ultimate choice is made with the concurrence of the Minister of Public Works. Consultants to be associated with a project are identified when approval for the total funding of a project is sought from the Treasury Board. For complex projects Public Works may engage private consultants to prepare the project brief which is sent to the Treasury Board.

The first Vice-President of the Royal Architectural Institute of Canada was asked if Public Works had distributed its work amongst architectural firms equitably. Mr. Baldwin replied "I think I would have to agree that has been the case. I am speaking really of the last ten or twelve years where the spreading around has been better and handled in a different way from the way it was handled twenty or twenty-five years ago." (19:35)

### **Proposals for Changes in Consultant Selection Procedure**

Even though Public Works' commissions have been widely distributed, under the prevailing selection procedure there has been concern both in the department and in the private professional associations that the selection process should be reviewed and open standards established. An inter-departmental committee to study and make recommendations on all aspects of consultant contracts was initiated by the Material and Services Management Policy Division of the Treasury Board and the first meeting was held in April, 1977. Public Works is represented on this committee which has considered draft proposals but has not yet agreed on the recommendations it will make for changes in policy to the Ministers of the Treasury Board.

Both the Association of Consulting Engineers and the RAIC submitted briefs to the interdepartmental committee in September 1977 and have made this material available to the National Finance Committee. In their submission the Association of Consulting Engineers stated that the federal government is the largest single purchaser of construction and engineering services and "represents the single most important business opportunity to the consulting engineer".<sup>5</sup>

The selection procedures proposed by the Canadian professional associations closely parallel the selection procedure established by law in the United

---

<sup>5</sup> A copy of this brief was offered to the Committee by J. J. Heffernan, President of the Association of Consulting Engineers by letter on October 6, 1977



States.<sup>6</sup> As described in a letter from the RAIC this law “specifies that the procurement of architectural and engineering services for work by the federal government is subject to a legal process without any political intervention”. Briefly summarized the authorized procedure requires that a list of projects to be constructed by agencies such as the General Services Administration be publicized by advertisement. Interested firms then respond and, in the case of the General Services Administration, a regional public advisory panel evaluates qualifications and recommends three to five firms to be interviewed by the G.S.A. evaluation board composed of in-house professional architects and engineers. The evaluation board ranks the firms and negotiations are carried out with each in turn until agreement is reached with one of them on a fixed price contract. Complete detail of this procedure was given to the Committee in the testimony of Mr. Ink of the General Services Administration. (23:36)

Except in the unusual circumstance of the National Gallery Competition Public Works selects its architectural and engineering consultants without competition. While the Canadian professional associations have pressed for changes in the selection procedure for some time, they, in common with their counterpart organizations in the United States, are resolutely opposed to the introduction of competitive bidding based on the fees to be charged as a method of selecting architectural and engineering consultants.

The Committee is satisfied that the present selection process has distributed work fairly widely amongst consultants but changes to make it more equitable and more effective are desirable. The associations in their testimony indicated that they have confidence in the professional competence of DPW's staff to assess qualifications and to make the selection based on any new policy eventually recommended by the inter-departmental committee studying the conditions of contracts with professional consultants.

The system used in the United States deserves close attention because it includes the individual firm, the profession and the government agency in the selection process. It could be put into practice without difficulty. It would also apparently be acceptable to the consulting profession. Public Works has preliminary lists of qualified consultants which could easily be expanded. In this way competition would be brought into the preparation of the conceptual design of DPW projects and the selection of consultants would be opened up. Certain safeguards might have to be attached to this method of selection, such as the establishment of a public advisory committee to assess the work of the selected consultant after the building was completed. The Committee recognizes that such an approach to the selection of professional consultants would require more preparation and therefore might incur more expense for the participants than the procedure. However, the important elements are that the selection process be free of political intervention, that all projects be publicly announced with participation unrestricted except perhaps on a regional basis to

---

<sup>6</sup> U.S. Public Law number 92-582 (The Brooks Act)



ensure familiarity with local conditions and that the selection be made on the qualifications of the participating consultants and their respective conceptual design approaches to the project.

**The Committee recommends the following method of selecting architectural and engineering consultants for the design of federal government construction projects. DPW would publicly announce its proposed construction as well as major alteration and repair projects. Interested consultants would reply by submitting their qualifications, experience and capabilities. DPW would select three to five firms each of whom would be asked to supply their conceptual design approach and their estimate of the cost of the project. A DPW selection committee would rank firms on the basis of their conceptual designs as well as their qualifications, experience and capabilities. The top-ranking firm would be interviewed in order to arrive at an agreement on the work to be done and the fee to be charged. If agreement could not be reached the other firms would be interviewed in order of rank until agreement was reached. The work of the DPW selection committee would be subject to review by a public advisory committee.**

The Committee believes that this method of selection would improve the quality of design of federal government construction projects and reduce their costs. The engineering and architectural professions would likely support such an approach because opportunity would be open to all and selection would be on the basis of ability and the conceptual design solution to the project.

In order to start the consultant selection process for a particular construction project, DPW would have to draw up terms of reference and conditions under which the design work would be done. DPW could, if it chooses, retain consultants for this work on a fee-for-services basis, but these consultants would have no special status as applicants to be retained as designers under the selection process.

### **Consultant Fees**

The Committee was told by Mr. Desbarats that the department's fee committee was reviewing the scale of fees for professional architectural services. The review was necessary because DPW was paying on a schedule ratified by the Treasury Board in 1970-71. In the meantime the fees set under provincial legislation by provincial professional associations had increased in many provinces. Public Works has several bases for the payment of professional fees including per diem rates but they are usually based on a percentage of the building cost. Mr. Desbarats explained that the percentage system had persisted even in the recent period of inflation in construction costs because "the provincial associations have wanted it that way and most of them are approved rates which have been passed by Order-in-Council in the various provinces." (6:34/35)

Fees paid by DPW for engineering services are based on the character of the work performed. Mr. Beauchemin, President of the Association of Consulting Engineers commented on the range of fees now paid by DPW for engineering services:

DPW has come out with what we call the weighted average. In other words it is nobody's fees. It is a weighted average...of the provincial fees...On construction that is pretty well standard, like the Accommodation Program, it would be a percentage of the construction cost. In the case of studies it would be based on salary. In the case of supervision it is a mixture of percentage and the amount of staff you have doing supervision on the work. (18:39)

Since the Committee concluded its hearings the Department of Public Works has received authority to increase the per diem rates from the Treasury Board. Permission to negotiate percentage rates on the basis of the prevailing provincial professional associations scale has been granted, while remuneration for professional consultants is also being considered by the Treasury Board interdepartmental committee on consultant contracting procedures.

While the question of professional fees is a sensitive one, it should be aired. The present schedule paid by DPW works against the achievement of economy in the construction of federal buildings. Because the fees are a fixed percentage of the cost of the project in accordance with the provincial associations' scale, there is no incentive in the fees for the consultant to reduce that cost.

The witnesses from the Association of Consulting Engineers acknowledged that developers who retain an engineering consultant would probably not pay as much as the government "in total amount...but he asks much less of us than the government does." (18:39) A developer tends to build a standard building. To the extent that the department is involved in building a standard building, it should be possible for DPW to negotiate lower rates.

Both Public Works and the Treasury Board committee might consider some of the policies that have been successfully tried in the United States. The U.S. General Services Administration negotiates the level of the fee to be paid for architectural engineering services up to a statutory level of 6 per cent of the cost of the project. An additional element is added to the fee, again by negotiation, for what is known as value management of the program, that is for finding new ways and better ways of carrying out particular functions. (23:21) Mr. Ink explained the merit of negotiating a distinct incentive of this kind as part of the consultants fee.

Value management contributes so much more if it is brought into play at the outset, where a change in design has an impact on cost that you can never equal later in the process—during construction, for example. Design is so key to cutting costs and finding better alternative methods. (23:40)

**The Committee recommends that the scale of fees for architectural/engineering services be amended with fees to be fixed on the basis of the**

**professional consultant's and DPW's estimate of the cost of the job. However, the consultant should be entitled to a premium if the design prepared by him results in substantially reduced construction costs.**

As long as DPW retains the present fee schedule it can justify the retention of its staff of in-house professionals whose salaries are fixed and who therefore gain nothing if the cost of executing their design rises. It seems to the Committee that this constitutes a challenge to the consultants who have been asked to contribute to the Treasury Board committee study. **If design consultants want DPW to reduce the size of its in-house professional staff and increasingly to use outside consultants, they will have to look realistically at their fee scales and be prepared to recommend to their membership acceptance of changes which would provide an incentive to the consultant to reduce overall cost of a project.**

The Committee has come across another arrangement, already successfully applied by a Toronto-based firm, which can contribute to keeping down costs for standard accommodation. It requires a direct association between an engineering consulting firm and a construction company. The consulting firm will prepare, for a fee, a preliminary design based on the requirements outlined in the Project Brief and detailed specifications and working drawings required by the tender documents. At the time of submitting the design drawings the affiliated construction firm quotes a guaranteed price for the finished building. If the design is approved, the job is put out to tender. At this stage the affiliated construction company tenders, as does any other company, but the affiliated company undertakes not to tender above the guaranteed price, although it may go below it. Tender documents would indicate to all bidders that the affiliated firm was also submitting a tender. If the affiliated construction company submitted the lowest acceptable tender, the consulting firm would withdraw from supervision and waive a predetermined percentage of the engineering fee to permit the retention of an independent construction manager.

The merit of this formula is the certainty it provides that the estimated cost will not be exceeded in the actual construction. The Committee considers that the adoption of such a formula would be beneficial and should be considered by DPW.

### **Selection of the Design and the Designer by Formal Competition**

In Scandanavia, Germany and Switzerland there is a strong and continuing tradition of holding open competitions for the design of publicly financed buildings. Competitions are not held as routinely in Canada and the United States. A substantial section of the architectural profession in North America apparently objects to the competition system as costly in both money and human effort.



The recent competition for the design of the proposed new National Gallery of Canada was the first competition to be held by Public Works in 25 years. It engendered a protracted controversy within the architectural profession. DPW worked with the Royal Architectural Institute of Canada, the Ontario and Quebec Associations of Architects in the preparation of the rules for this competition. (19:9) Design competitions have been a matter of concern to the RAIC for a number of years, and in 1976, the Institute released a revised and updated Code for the Conduct of Architectural Competitions.

Open competitions in which all architectural firms are entitled to submit a design for consideration by a jury are costly to the competitors. A limited two stage competition was used for the National Gallery Competition. A total of 456 architects or firms applied for the brochure describing the submission procedure for the first stage. Fifty-six first stage submissions were received from competitors who were required to compete as a co-ordinated working team comprising architects, engineers, estimators, etc. capable of carrying the project through if chosen. Following assessment of the "design ability, production capability, administrative expertise and supervision experience as well as financial capability"<sup>7</sup> of each such team, ten were selected to proceed to the second design concept stage. Each of the teams selected for Stage 2 competition received \$35,000 toward the cost of preparing their actual design submission. (19:10)

The Assistant Deputy Minister of Design & Construction, Mr. Desbarats, endorsed the use of design competitions in controlled situations. He agreed that open competitions can be very expensive for the competitors. The two-stage selection process was used in the National Gallery competition because it was a far less expensive process for the majority of the competitors. (6:18)

The RAIC differentiated between competitions which are used to choose a design and those which are used to select a designer. In an open competition, a design is selected because all competitors have submitted a design. This type of competition provides "an ideal vehicle by which a young unknown designer can bring himself to public attention." (19A:3) In a two-stage competition, the first phase selects the design competitors, the second phase selects the design. In the first phase the previous performance largely determines whether an architectural firm is selected to enter the second phase. (19:37/38) Obviously those firms with considerable experience have an advantage in this type of competition.

### Criticism of Competitions

The major criticisms of design competitions received from the professional associations and practising architects concerned the costs they add to the

<sup>7</sup> Robert Gretton, "National Gallery Competition Report", *The Canadian Architect*, vol. 21, no. 11, November 1976, p. 1



overall cost of the building, the cost to participants to enter the competition and the gamble that the winner will be able to carry out all aspects of a project and keep costs within the approved budget. It was readily acknowledged by representatives of the RAIC that holding a competition adds to the cost of the building. In the case of the National Gallery competition, approximately two years work was required to put together the information package sent to potential competitors. Honoraria was paid to the jury and the chief examiner. A recent article in the *Canadian Architect* indicated that in Britain the use of a competition to select the design "adds about .5 per cent to 2 per cent to the cost of a project."<sup>8</sup>

The cost of entering a competition and the losses incurred by the unsuccessful competitors were frequently mentioned as a disadvantage to the competition method. One architect estimated that the competition entry for each of the ten firms in the second stage of the National Gallery competition cost between \$80,000 and \$100,000. An open competition, according to Page & Steele of Toronto "...imposes considerable expenditures in lost time and money on all those competitors except the winning entry. Larger firms are more capable of absorbing such costs and therefore have an advantage over the smaller practices."

The individual firms and the RAIC suggested that an architect who submits a good design may not necessarily have the production experience and know-how to bring the project to completion and within the established budget. Therefore, the RAIC representative thought that "the route to go is to take the designer and not the design." In this way, the designer is selected to a large extent on his previous work. (19:11)

The Committee acknowledges that competitions make the client think through its requirements and lay them out in a concise form, but this makes it difficult for the client to change those requirements as the design process proceeds. However, most importantly, competitions tend to foster better design solutions.

### Smaller Regional Competitions

The Royal Architectural Institute of Canada approved the use of competitions for the design of public buildings in their brief, saying that competitions have a role to play in the profession. Public Works should not restrict its design competitions to major national buildings only. Regional competitions were also suggested by Mr. Baldwin of the RAIC.

The government presence regionally is of encouragement to the profession and, in my opinion, it would be a good idea to hold smaller competitions regionally from time to time. (19:11)

---

<sup>8</sup> Judith Strong, "For and Against: The Competition Debate", *The Canadian Architect*, vol. 21, no. 11, November, 1976, p. 23

Individual architects also supported the use of smaller provincial or regional competitions.

There are many smaller firms located in regional areas who are perfectly capable of providing a high standard of architectural work and should be supported since they are an integral part of the local economy. (Meiklejohn, Gower, Fulker, Wallace and Maltby of Kelowna, B.C.)

Earlier in this chapter the Committee recommended the introduction of an element of competition into the selection of design consultants. Under the Committee's recommendations consultants would be required to give considerable thought to the conceptual design solution and the estimated project cost prior to being selected as design consultant for a particular project. Under these circumstances formal competitions should be restricted to the design of buildings of major national importance where design is the primary consideration rather than function and economy.

### **Composition of the Competition Jury**

The RAIC brief stressed the importance of the careful selection of those who are to select the successful submission in a design competition. "The composition of the jury is a vital consideration for the jury is the sole judge of the best design or project." The RAIC would be an appropriate body to appoint juries for public competitions which would be conducted in accordance with the RAIC Code for the conduct of architectural competitions. (19A:3) Mr. Desbarats testified that in the National Gallery competition the general public was not directly represented but that there was "some expert general public on the jury." He listed the members which included a former president of the RAIC, distinguished architects from the United States and Holland, a member of the National Capital Commission, a professor of art history and the director of the National Gallery of Canada. (6:21)

The selection of a jury was also viewed as critical to the success of any competition by individual firms who wrote to the Committee. This comment is typical.

The existence of an independent jury, particularly with a carefully chosen professional adviser, gives confidence to the entrants that no extraneous influences will be brought to bear on the judging.

The jurors can also provide the client with unique insights into his operations and problems that can be valuable...As well, the process of judging is a stimulating and educational experience, not only for the jurors themselves, but also for all architects. Jury discussions and reports have been a rich source of ideas, and have revealed different directions of architectural thought in perhaps the most effective way possible. (Brook, Carruthers and Shaw, Toronto)

The firm of Marani, Rounthwaite and Dick of Toronto suggested that a jury should include a quantity surveyor "to ensure that the selected design can be built within the moneys allocated for the project or within the costs quoted by the winning design." Mr. Baldwin of the RAIC noted that a quantity surveyor has a very important input as a juror. He added that "the competition process could involve a developer as a jury member just to get the counterbal-

ance of the heavy practical side, for which developers are known, as opposed to a truly artistic evaluation of a competition.” (19:36)

**The methods of selecting professional consultants to work on Public Works projects should be equitable. The Committee therefore recommends the selective use of two-stage national competitions by Public Works for the design of buildings of unusual national importance, the final selection to be made by a jury competent to assess the cost-effectiveness of competing designs as well as their architectural merit and appropriateness.**





---

## CHAPTER 11

---

### WHY FEDERAL BUILDINGS COST MORE

Public Works does not deny that federal government buildings are more expensive to construct than those built speculatively by private industry. The Committee discussed the reasons for this with both departmental and private sector witnesses. The Minister acknowledged that if DPW and the private sector “were building identical buildings, then they probably would be comparable, but because it is the public sector there may be extra requirements.” (1:61)

An Assistant Deputy Minister of the department as reported in the press was more specific. He was quoted as saying that “about 46 per cent of federal office buildings in Ottawa are leased from private owners—and every one of them costs less than the buildings the Government builds for itself.”<sup>1</sup> Mr. Perrier was questioned about this statement by the Committee. (13:59) By way of clarification he later wrote that he had also told the reporter, who omitted these qualifications in the quotation, that private sector buildings cost less than government owned buildings “because of the inferior quality, design costs, contracting practices and generally the time it takes to get things done in Government.”<sup>2</sup>

All of these reasons and others were given by other departmental witnesses. Mr. Williams made a fundamental point at the first hearing. “...a speculative builder is interested in providing something which he can put on the market and lease, if there is a market, with the idea of making a profit... In the private sector people are expected to look after themselves in a way in which we are not supposed to do business, which is a factor contributing to our costs.” (1:57)

The Minister, at the same hearing expressed it differently. “...We are subjected to additional constraints, restraints, and requirements over and above those laid upon private developers.” (1:59) Rigid specifications and the obligation to call for public tenders for all construction contracts are two of these. Further restraints are self-imposed. The Director of Building Design in the Design & Construction Branch told the Committee “I think we are more

---

<sup>1</sup> *Globe and Mail*, 2 January 1976

<sup>2</sup> Letter from A. J. Perrier to the Chairman, June 28, 1977

demanding, and I think usually our clients are more demanding than those in the private sector" (6:13)

Federal buildings have been built to last, and indeed the numbers of heritage buildings owned by the federal government are ample testimony to that fact. They have been built for the sole use of the owner-builder, that is the federal government over the whole life of the building. Evidence received from the private sector suggested that the materials used for this reason in government buildings increase their cost. The brief submitted to the Committee by A. E. LePage Ltd. and later discussed at a hearing with company representatives listed some particular items.

More expensive finishes such as marble sills, marble toilet partitions, stone and expensive pavement materials are not normally found in developer buildings. These cost changes do not necessarily provide a better built or more functional, low maintenance building. (20A:1)

This brief and others also suggested that the additional cost of federal buildings was in part attributable to the freedom architects have in preparing a design for public buildings as compared with preparing a design for a private sector building in which "the economic value of a rental office building is related to the rental income it can produce..." It was stated that attention is understandably given "by private developers to achieving the highest possible net rentable to gross floor area ratio." The brief continues:

Our experience indicates that government buildings are usually not as efficient as developer buildings in terms of net rentable area to gross floor space. Government-designed buildings are far more generous in areas such as lobby, corridor and washroom design. (20A:1/2)

This statement was clarified by the testimony of a representative of this company, A.A. Stoddart, who indicated that the private sector target was to achieve a ratio of net rentable space to the gross area of a building of 92-94 per cent based on full floor tenancy. Net rentable area includes corridors, washrooms, etc. He had reviewed some government buildings "where that percentage was down to 68 per cent" (20:8), but such a low percentage would be found only in "the classic monumental buildings and will not necessarily represent the standard set by the government." (20:15) Government buildings would generally fall within the standard for private sector "institutional types of buildings, such as insurance companies and banks building for their own use." Such buildings "usually end up 5 to 8 per cent less than the development-type rental building", that is with a net rentable area of about 85 per cent. (20:16)

Robert Campeau, Chairman of Campeau Corporation, in a written brief also unfavourably compared the ratio of net usable area (that is space where employees actually work) to gross space in buildings designed by consultant architects for the federal government with those designed for the private sector. It was his view that "when architects work for governments or government agencies they have the opportunity, and are frequently encouraged under this system, to build monuments."

Whatever the figures, it was evident that the federal government has not faced the severe financial constraints which have forced private developers to maximize usable floor space. Considerations of prestige have further added to costs in ways which are commented on later in this chapter. While the Department of Public Works has become more cost conscious in recent years, the Committee believes that **only under revenue dependency will DPW be faced with the same kind of financial discipline which constrains private developers, a discipline which should lead to the construction of less costly buildings.**

### Life-Cycle Costing

In trying to explain why federal buildings cost more, Public Works officials claimed that, although initially public buildings may appear to cost more than those built speculatively, this is because "there is more concern placed on the life-cycle cost of the building rather than the initial costing." (6:13) On this basis, Mr. Macdonald insisted Public Works buildings "would probably cost less."

We have the greater concern because we are the user-payer of the building throughout its whole life cycle, not through the mortgage life, which is the term interest of the builder. (7:33)

Life-cycle costing is now well understood by architectural designers. It was clearly defined in a paper given to the Ontario Architectural Association at its annual meeting in 1974 and has been the subject of articles in trade publications.

It is a process for predicting the owning cost of a facility over its life span. To afford a complete picture, the analysis should include elements of original cost, annual energy, annual cost of labour, utilities and material for upkeep, service contracts, insurance, applicable taxes and replacements to plant as required throughout the term.<sup>3</sup>

The concern about life-cycle costing has become much more pronounced in Public Works as elsewhere in recent years. A DPW official, the Director, Building Design, explained:

At one time we did spend a great deal of effort in reducing the initial capital cost by X number of dollars down to an acceptable level, and wherever possible, relating it to the commercial market. I think it is a more sophisticated view to analyse it on the total ownership, including the energy, the operation and maintenance costs, and to take those into account at the design stage rather than to worry about them later on during the life of the building. (6:14)

The Committee has two observations to make about the emphasis Public works now puts on life-cycle costing of its building designs. First it is difficult to support the viewpoint that Public Works' buildings probably cost less over their life span than private sector speculative buildings. Developers must be concerned about operating costs.

---

<sup>3</sup> *Canadian Architect*, August, 1974

Secondly, while buildings may physically last a long time, they can become obsolete for functional and economic reasons and the factors causing this to happen have been increasing rapidly. This point was made forcibly in the brief from A. E. LePage Ltd. to support its argument in favour of leasing over Crown construction.

Changes in office building technology, particularly in improvements to electrical and mechanical systems, fire safety systems, and energy conservation methods, contribute to built-in obsolescence in office structures. Many office buildings built in Toronto in the 1950's are virtually unrentable now without extensive renovations. (20A:3)

There are federal buildings in Ottawa from the 1950s which will also require extensive renovations if only to bring their heating and air conditioning components within the acceptable limits set by the energy conservation program. Such buildings provide specific examples of why life-cycle costing is difficult to forecast accurately. If it is realistically done during the planning stages the designers of the proposed building will be forced to anticipate those factors which might lead to obsolescence in their design. At the same time they must guard against designing a building which will outlast the purpose for which it was designed and against overbuilding to meet needs which may never materialize.

**The Committee agrees that life-cycle costs must be determined and used as a basis for decision-making before construction of Crown-owned buildings commences. However it must be clearly demonstrated that any additional construction costs proposed on the grounds that they produce savings in life-cycle costs will actually avoid the need for expensive renovations in the future. Otherwise there are no savings to be gained over time.**

### **Additional Factors Which Increase the Cost of Public Works Buildings**

The federal government admittedly uses the Accommodation Program to achieve goals and objectives beyond the construction of required general and special purpose space. Mr. Williams directed the Committee's attention to these wider goals.

...We want economic accommodation, but that building must contribute to the municipality, or wherever it is erected, in such a way that it will represent the image of the federal government as it wishes to be perceived. It must carry with it the ongoing type of program which the department wants to advance—energy conservation being one example. It must relate to the ongoing ideas that the Department of the Environment is trying to implement that are not necessarily mandatory at this point in time but, perhaps, should be. These are all added factors which must be added to that which the government properly should do. Therefore, when making the comparison you must take those factors into consideration. (1:57)

The Committee took many of these factors into consideration and they are discussed in detail in the pages which follow.

### **Projecting the Federal Presence in Federal Buildings**

A departmental paper setting out a National Investment Policy for the Department of Public Works states that "the concept of federal image or



federal presence created by a federal building is admittedly an elusive one, but a consideration which is frequently raised at the project planning stage.” This paper defines “federal image” or federal presence as:

the awareness on the part of a given community, be it local, regional or, indeed the nation as a whole, of the role the federal government can and does play in contributing to the quality of community life, and of the relevance and accessibility of federal programs as solutions to particular community problems.<sup>4</sup>

Perception of the need to project a federal image or federal presence in federal buildings in the National Capital has existed from the time of the construction of the first parliament buildings. Outside of the larger cities the focus of the federal presence has often been the post office or customs house and many of the older federal buildings have become local land marks.

The paper on National Investment Policy also presents what it calls “federal presence criteria” under four headings to guide DPW project planners. The size of the building must be dictated by client requirements, cost of construction and operation. The design of the building should emphasize the function of the building, taking into account “human scale, urban setting and interaction”. Programming of the building must be carefully carried out for maximum effectiveness. Finally location of the building is vital.

Location tends to be an essential component of “federal image” in that the public has certain expectations in relation to the suitability of the surroundings for the federal program in question. This does not necessarily mean a prestige location. On the contrary, certain clientele may be much more comfortable and more impressed dealing with certain federal programs in very modest surroundings.<sup>5</sup>

The Committee examined the validity of these criteria in several ways. A question on this theme was included in the letters sent to architects, real estate companies and developers by the Committee. Each was asked “should the design of a public building be affected by considerations beyond the provisions of appropriate office space, that is, should a public building be a focal point of public pride?”

“Public buildings no longer need to be monumental,” wrote the Royal Architectural Institute of Canada in their reply. However, “there is still a vital need for the federal government...to impinge on the consciousness of Canadian citizens wherever they may live.” (19A:4) This view was expanded in testimony by W. D. Baldwin, First Vice-President of RAIC who detected a change recently.

I think they should be recognized as federal, but they should not be over-powering and heavy in symbolism or monumentality...I think there has been a little foreboding and coldness about federal architecture in the past that is slowly being eliminated and I think it should be completely eliminated. (19:44)

---

<sup>4</sup> Canada. Department of Public Works, Departmental Planning and Coordination Branch, “National Investment Policy”, August, 1976, p. 12

<sup>5</sup> Ibid, p. 13

The Committee received letters from approximately thirty individual architectural firms, and from five schools of architecture in addition to those received from the RAIC and seven provincial associations of practising architects.

Several architectural correspondents insisted that all buildings should be a source of pride to the owner, and in this regard public buildings are not in a class by themselves. Buildings should relate to all aspects of their surroundings, regardless of their function. In this the government could set an example for others by designing office buildings which harmonize with and contribute to their environment.

However almost all of the respondents felt that at least some public buildings should be a source of public pride. Vancouver architect Arthur Erickson summarized this viewpoint.

I believe that public funds should be spent wisely with the goal of building buildings which have longer life and greater public significance than private speculative buildings have. Public buildings should demonstrate the wise use of innovations in technology in contrast to the gimmickry which appears in projects of the private sector. They should above all take into consideration their effect on the general development of a city, help in the realization of its plans, and attempt to overcome the negative effect on their surroundings that public buildings usually have. Since the public sector is unique in being able to demonstrate a responsibility and concern for the well-being of a city, in contrast to the pure self interest of the private sector, it would seem to me an obligation to fulfill that role. A public building in other words should be a focus of public pride. (Arthur Erickson Architects Vancouver)

A Calgary firm suggested how federal buildings might present that focus.

All Federal Buildings should attain a high standard of design and finish, in that they represent and reflect the people's pride in their country and themselves. This standard does not require unduly huge investments of capital, but good judgement and, particularly, adequate funds spent on landscaping and surrounding space. (Cohos, Evamy & Partners Calgary)

Not surprisingly those organizations involved in private sector real estate development felt there was no special need to reflect prestige in all government buildings. The Montreal Real Estate Board suggested that the question of prestige should be taken into consideration only for the Ottawa-Hull region and outside Canada in buildings housing Canadian government interests. A.E. Diamond of the Canadian Institute of Public Real Estate Companies (CIPREC) acknowledged that there are exceptional buildings "where the federal presence has to be exemplified...I think that is a perfectly viable and reasonable thing for government to decide."

Where the prime objective is office space per se, then it is our view that the standard office building construction prevalent for prime office space in any major city would fulfill the requirements of the federal government...(21:10)

Undoubtedly buildings designed to be prestigious are inevitably more costly. This cost can be minimized by a skilful designer as the National Investment Policy indicated. The Director of the School of Architecture, Carleton University, also made this point.

Public buildings no longer need to be monumental...Skillful designers can achieve their ends by manipulation of the location and siting of buildings, by the arrangement of its masses, and by the sheer visual impact of its form and still deliver the buildings within the cost constraints relevant to the building type involved.

Certain federal buildings, particularly those located in the national capital must reflect a measure of dignity and prestige. This may be achieved by a careful choice of site, use of building material and selection of an imposing design. The additional elements contributing to an impression of prestige often will but need not necessarily add to the cost of construction. However, Mr. Jean Paradis of the Campeau Corporation estimated that such additional costs could be considerable. (21:14) Accordingly, the Committee concluded that when a deliberate decision is made to build a prestige building, the extra expense attributable to this factor should be calculated and made known. Indeed, under revenue dependency Public Works would have to identify the additional costs and these would have to be recovered by appropriation.

**The Committee recommends that when approval is sought from the Treasury Board to proceed with the construction of a prestige public building full information about the additional costs attributable to this factor should be identified. Under revenue dependency the necessary funds beyond those required for standard accommodation should be provided through special appropriation.**

### **The Development of the Major Multi-Purpose Government Complexes**

As a result of the decision to emphasize the Crown construction solution, Public Works has in recent years embarked upon a concerted program of consolidating federal government accommodation in each of several major urban centres. Large multi-purpose complexes with ground level space for some private sector commercial activity have been planned for North Toronto where the building is already occupied, Calgary where the building is largely completed and Montreal where construction has begun on the Complex Guy Favreau. The site for the Vancouver building has been acquired and funds provided for the preliminary design. Feasibility studies have been made for a new large federal building in Halifax and similar buildings are being considered for Edmonton and London.

This is in keeping with the prevailing view in Public Works that there should be at least one recognizable federal building in a city. Such multi-purpose complexes therefore are another way of asserting the federal presence in urban centres where federal activities have largely been carried out at widely separated locations. This development may be at odds with the federal presence criteria set by the department which states that "a large building is not a goal to be achieved for its own sake, but rather should be the result of other considerations..."<sup>6</sup>

<sup>6</sup> Ibid, p. 12

The letters received by the Committee from practising architects tended to stress the disadvantages of such large government complexes, and urged decentralization or dispersion of federal activities to avoid increasing traffic congestion, and the creation of what one described as "monsters that are not in scale with the adjacent community." (Alfred Tilbe, Toronto). Another firm, the LM Architectural Group, Winnipeg, wrote: "The federal government should be planning their locations of various uses and activity in conjunction with municipal requirements and should avoid ghettoing."

This new Public Works building policy will now also have to be reconciled with a recent Treasury Board initiative. A number of measures are to be introduced throughout the public service to improve service to the Canadian public. The Secretary of the Treasury Board on March 31, 1978 announced a series of recommendations formulated by a task force assigned to study and report on the quality of the federal government's service to the public. One recommendation suggests that "where possible small offices be dispersed throughout client populations and located contiguous to related services including those provided by other levels of government..."<sup>7</sup>

The Committee's earlier examination of the work of Canada Manpower Centres led it to the same conclusion reached by the Treasury Board task force. Accessibility must be the first consideration in locating federal services most sought by the public. The large federal complex may be justified to house the increased numbers of decentralized regional public servants responsible for administering programs which do not directly involve the public. However, where services to the public are being offered, the aim should be to locate them in premises which are easily accessible to the public being served and located close to other services which people use. The concept of one-stop federal service may have little relationship to the life of the ordinary citizen.

A different situation arises where more than one federal service is located in a moderate sized urban community. There it may be desirable to group them. A relatively large federal building may be the only such structure in town and therefore a focus of local pride. It may also help to diminish the sense of personal remoteness from the federal government which most people in such towns feel. However, the Committee considers the objections raised in the briefs received from architects to the concentration of a number of federal government activities in major urban centres in a large multi-purpose complex to be well taken.

**The Committee recommends that all proposals for large federal multi-purpose complexes in major urban centres which are still in the planning stages be carefully re-assessed. However multi-purpose complexes in smaller urban centres, whose cores are not highly developed, and which do not suffer problems of congestion, could bring benefits.**

---

<sup>7</sup> Treasury Board News Release, "Improved Service to the Public", March 31, 1978



## Public Works Heritage Policy

Widespread interest in and concern for the preservation of heritage properties in Canada has increased significantly since Centennial year. Until recently Public Works displayed no special sensitivity toward the heritage properties under its control. Indeed officials admitted that DPW buildings had been "altered and demolished, abandoned and reconstructed, in response to functional and economic issues." (16A:1) No policy on heritage concerns had been articulated. This indifference of the department reflected the general public attitude toward the national heritage as reflected in both public and private buildings. Public Works was prompted by the public demand, which has developed in recent years, for action to prevent further destruction and to encourage preservation of heritage properties.

Public Works has existed as a department since before 1867. It retains on its inventory buildings dating from the beginning of its departmental responsibilities. This is now fully recognized by DPW and a detailed heritage policy has been formulated. The Committee devoted one hearing entirely to a discussion of DPW's heritage policy and activity with a panel which included departmental officials, R.A.J. Phillips, Executive Director of Heritage Canada, and John Leaning, an Ottawa architectural consultant with extensive experience working on federal heritage projects.

The new heritage policy was approved by the Department's Executive Committee immediately before its presentation for discussion at this hearing. It had evidently been prepared as a result of the request by the Committee for a review of DPW's policy on heritage buildings.

A departmental official introduced the new policy with this observation:

We are probably the largest single holder of heritage property in Canada, with the possible exceptions of the railroads and the churches. The Public Works collection is amazing in its diversity. It ranges in size and quality from buildings of unquestioned national importance, like those on Parliament Hill, to small post offices all across Canada, each of which may be very important to the community in which it stands. (16A:1)

Public Works is a member of the Federal Advisory Co-ordinating Committee on Heritage Conservation set up by the Cabinet in April 1975. Other departments on this Committee include Indian and Northern Affairs and the Secretary of State, NCC, CMHC, and the Department of Regional Economic Expansion. Through this Committee provincial cooperation has been sought in the completion of a Canadian Registry of Historic Properties. It was explained that Public Works is not limited in the same ways as other federal agencies because of the direct control it can exercise over its heritage properties.

The Department of Public Works is in a preferred position with regard to its heritage holdings. We own them. Moreover, we have clients to accommodate in them; the funds to maintain them; and the funds to restore, preserve, or renovate them. We can even acquire threatened heritage properties when we can find a use for them. (16A:1)

The need for a statement of policy on the department's involvement in the preservation and recycling of heritage buildings was first recognized in the

National Investment Policy issued in August, 1976. DPW planners and decision-makers were told in that paper that they must use their own judgement in deciding if a building has heritage value. "Age, architectural significance, connection with an historical event, or prominent social value to the community are the characteristics which define a heritage building."<sup>8</sup>

This statement in the National Investment Policy was engendered by the Treasury Board circular of May, 1975 on Federal Land Management which discouraged the disposal of surplus federal lands and the structures without due consideration. Federal properties of all kinds come under the Federal Land Management Policy but a special significance is now attached to heritage properties as a DPW official explained.

Our buildings have often shaped the towns they are found in. They usually convey the federal presence with more conviction than any new building can. When we abandon one of these socially important buildings for a new building...we give ourselves the problem of the appropriate disposition of the original building. (16A:3)

The Project Delivery System now requires identification of the heritage implications of any project at Stage 1, Requirement/Opportunity identification. The National Investment Policy gave the first indication on how a heritage project should be dealt with by DPW staff planners.

...a heritage project is to be subjected to the same economic analysis as are other projects. In some cases it may be less costly to preserve and recycle than it is to demolish and re-construct. If not, the project brief will justify the additional cost on the basis of the social benefits perceived.<sup>9</sup>

The recommendations contained in the formal heritage policy presented to the Committee extend and confirm the earlier statements. They provide a reference framework for the guidance of those DPW officials preparing the supporting analysis to be included in the project brief when it goes forward for approval by departmental executive action or by submission to the Treasury Board.

There are ten recommendations in the DPW Heritage Policy covering the following points. First a "definition of what is or is not a heritage building". Recommendations two and three cover the development and utilization of expertise in heritage matters. Recommendations four, five and six urge DPW planners to find appropriate uses for heritage structures. Recommendation seven requires DPW designers to "respect the integrity of the original building" when making modifications. Number eight requires the same respect for heritage values in maintenance and renovation. Finally recommendations nine and ten cover economic considerations, the acceptance of heritage value in cost/benefit calculations and the disposition of heritage facilities located on sites required for other purposes.<sup>10</sup>

<sup>8</sup> Canada, Public Works Departmental Planning & Co-ordination Branch, "National Investment Policy", August 1976, p. 13

<sup>9</sup> Ibid p. 13

<sup>10</sup> For a full statement of all recommendations in the DPW Heritage Policy see Proceedings 16A:9

To develop a basis of information on DPW's heritage holdings an inventory of all pre-1945 buildings under the control of the department has been prepared. The information listed in DPW inventory is designed to be compatible with the Canadian Inventory of Historic Buildings. Evaluation of the buildings listed will be a continuing process and to assist those faced with heritage decisions four designations have been developed. (1) Important, (2) Preserve, (3) Maintain, and (4) Insignificant. (16A:5)

Other non-architectural activities arising from the heritage policy include the improvement of the department's research capability and cooperation with other federal and volunteer heritage organizations. Public Works has had a good deal of experience in recycling, reconstructing and restoring and preserving large and small heritage properties. In Ottawa recent examples were cited—the Langevin Block, the Bishop's Palace and the LaSalle Academy on Sussex Street and the East Block. Outside Ottawa examples of smaller heritage projects in Niagara-on-the Lake, Ontario and Guysborough, Nova Scotia were described.

### **Assessment of DPW Heritage Policy**

The outside witnesses as well as members of the Committee had a number of reservations about the recommendations contained in the new heritage policy and the effect they might have on future commitments. These centred primarily on the definition given in Policy Recommendation 1 and the evaluation criteria relating to it.

All buildings built before 1945 are "heritage buildings" until or unless designated otherwise. Some buildings built after 1945 may acquire a heritage designation.

The year 1945 was chosen because at the end of World War II there were major changes in building techniques. Public Works officials told the Committee that to be designated "otherwise", a pre-1945 building under departmental control would have to be considered as having no architectural, historical, social or contextual value. (16A:3)

Mr. Leaning expressed the concern of the Committee when he criticized this definition as "a little too all-embracing, or not selective enough" and the potential cause of future difficulties. He continued, "after all there were a great many inappropriate, ill-designed and singularly ugly buildings built prior to as well as after 1945." (16:12) The policy paper states that the 1945 definition is one "which can be applied in the first instance by decision-makers but modified later as further investigation may indicate." (16A:9)

Presumably further investigation would also be made on the basis of the criteria established for evaluation purposes, that is the four designations of "Important", "Preserve", "Maintain" and "Insignificant". Questions were also raised about the implications of these classifications.

It was acknowledged in the statement by DPW introducing the heritage policy that "Evaluation has troubled everyone in the heritage field." Many



attempts at general evaluation systems have been made. (16A:5) The designations Public Works would prefer to use were described for the Committee by this official but they are not explicitly stated in the DPW Heritage Policy paper. Of these "Preserve" and "Important" clearly apply to quite recognizable situations. The designation "Maintain" however gave the Committee some problems. It was explained that this status would be assigned to "buildings which require no special consideration beyond normal maintenance. This is a holding category for buildings which may or may not find a clearer value in their communities as time goes by."

The very imprecision of the designation "maintain" invites its use as a catch-all classification for what Mr. Leaning described as "the second line of buildings...not the prime ones." (16:43) By using it realistic evaluation can too easily be deferred by timid officials. The Committee was concerned that additional costs would thus be incurred in the continued repair and upkeep of buildings which have been acknowledged as having only marginal value.

The cost of recycling a heritage property was also questioned by the Committee. Mr. Phillips of Heritage Canada supported the contention of departmental officials that these can be favourably compared with the cost of new construction. Heritage Canada has published cost analyses of actual private sector projects which prove that recycling can be "done not only for the sake of cultural enrichment, but as a sound business investment." (16:10) Mr. Phillips cited actual costs per square foot for a Winnipeg project and other examples in Toronto. (16:11) Departmental officials cited the Guysborough Post Office which was recycled to "provide the same facilities as the Standard Post Office Number three that was slated to replace it", and cost "forty thousand dollars less than a new Post Office would have." (16A:7)

Major problems emerge, however, when it is decided to recycle a heritage building. According to Mr. Leaning the installation of modern standards of comfort such as air conditioning "does the greatest deal of damage to most heritage buildings, and in many cases makes it impossible to maintain a heritage interior." (16:14) It is frequently difficult to meet the requirements of local building codes, particularly in smaller buildings being retained for their social and contextual value. While Public Works is not required by law to adhere to national or municipal building codes, it is departmental policy to conform to the fundamental concepts but to choose an alternate solution when appropriate, particularly for important buildings like the East Block.

In spite of these problems the comments received from the architectural profession strongly supported the principle of recycling heritage buildings. The following is representative. "Restoration or recycling is mandatory if we are to preserve any kind of continuity in the development of our cities and culture." This correspondent continued:

Restoration and recycling can be expensive and frequently is a marginal economic proposition, particularly where a change in use produces a new demand for extensive servicing (eg. air



conditioning) which the original building made no provision for. Nevertheless we have a sufficient number of examples of recycled buildings which have produced both attractive and highly satisfactory space for contemporary usage to indicate that the payoff in more humane environments more than justifies the incremental increase in unit cost. (D. Shadbolt, Director, School of Architecture, Carleton University)

As Mr. Leaning suggested, when it comes to heritage “we are really in a highly subjective area.” (16:12) The new DPW heritage policy was originally drafted because, as one official explained, “in an organization as large as Public Works, where we are up against, at times, emergency requirements, we find that things happen which we wish did not happen.” The recommendations which have been accepted as the department’s heritage policy are there to guarantee that every building built before 1945 has to be looked at before there is a major alteration, before it is sold or demolished. (16:22)

The National Investment Policy appears to the Committee to provide a more reliable guide than the new heritage policy on which to base decisions about the disposition of aging but still occupied buildings which have been designated “maintain” under the present criteria. No project brief relating to a heritage project should go forward for approval without full documentation showing competitive costs. When economic comparisons (including life-cycle costs) show that recycling is impractical, that fact should be accepted for all but those buildings of unchallengeable historical or architectural merit. Where recycling is practical, the buildings should be renovated to standards as close as possible to those found in a modern building.

**The present definition of a Public Works heritage building is inadequate for administrative purposes. The Committee recommends that only buildings which have true historical or architectural merit should be preserved. Buildings of marginal historical or architectural worth should not be retained and restored for contemporary use unless the costs involved (including life-cycle costs) can be demonstrated to be competitive with new construction.**

### **Fine Art in Federal Buildings**

A further element of expense in Crown construction arises from the decision by Cabinet in December, 1964 to permit an additional sum for fine artwork to be added to the construction budget on “all buildings having a visual impact on the public whether new, renovated, existing or leased, and including both interior and exterior.” The sums are allotted according to a schedule relating to the cost of the building. Basically 1 per cent of the building construction contract is allotted for buildings whose cost is in excess of \$250,000. After amendments in 1975 and 1977 the schedule now specifically provides a modest allotment which can be applied to smaller buildings as well.

Since 1964 under the provisions of the fine art policy 206 objects have been bought or commissioned for installation in 104 communities across

Canada for a total of \$3 million.<sup>11</sup> The design architect working on a Crown construction project is responsible for the integration of the fine art selections into the building, but the actual selection is referred for approval by a departmental advisory committee.

Many of the objects, particularly sculpture, installed in public buildings as a result of the fine art program have been publicly criticized in the press and in Parliament. Some have objected to their being too modern. The Vice-President of the RAIC criticized the lack of integration of art objects in the total design process. He felt they were often just “glued-on” in front of a building. (19:16) The Executive Director of the Architectural Institute of British Columbia in his personal response to the Committee’s letter of inquiry listed a number of choices made under this program by the departmental committee and its advisers which he considered questionable.

Some of the results of their efforts—Vancouver Airport’s metal “Shell Station sign”; nude statues outside of Victoria Taxation Building allegedly stripped by the Taxation Department; an old furnace box outside the same building; a chain and glass sculpture which nearly decapitated a child at Chilliwack; melodious ice and timber art at Revelstoke which kept the town awake at night and had to be eliminated; costly aerial impressionist art for post offices which the Post Office Department would not accept.<sup>12</sup>

Before the Committee concluded its examination the fine art program had been temporarily halted. The policy was reviewed during 1977. A new Chief of Design Integration was appointed and early in June 1978 details of the implementation of the revised fine art policy were announced. It provides for the appointment of a National Advisory Committee of six qualified outsiders, one from each of the areas of Canada in which Public Works maintains a regional office, as well as local representation on selection review committees in each region including departmental liaison officers. The duties of the appointed members of these committees is purely advisory. They may be consulted about “the proposed location, theme and character of the artwork and the selection of artists with final authority vested in the Minister of Public Works.”<sup>13</sup>

Mr. Desbarats told the Committee that Public Works had a particular objective in its fine arts program.

We are not dealing here with museum or gallery art relationships. We are dealing with a very different type of relationship. We are not interested in purchasing objects that change or that go into the storage room when they go out of fashion. We are attempting to choose objects which will have as long a life as the building itself. We endeavour to choose something that will enhance the building. So the problems of the material qualities of the art object and of the position it is in, the base for it and the foundation for it, are architectural and engineering problems. For those reasons we think it is extremely fitting that it should be with us. (6:19)

<sup>11</sup> Peter Sepp, “One per cent to the People/Who Pays and Why?” *Artmagazine* 38/39, June 1978, p. 7

<sup>12</sup> Letter from R. J. Bickford; Executive Director, Architectural Institute of British Columbia, January 25, 1977.

<sup>13</sup> Canada, Department of Public Works, “Fine Art Policy Paper”, May, 1977, p. 1

The sums available for the fine art program under the present schedules can be substantial, particularly for the new large federal complexes. A total amount of \$240,000 has been spent on the embellishment of the new North York building. Almost as much (\$200,000) has been made available for the Calgary building for which eight major art works in various media will be commissioned, some by public competition. The projected construction costs of the Complex Guy Favreau exceed \$100 million. If the percentage formula is followed the allotment for fine art for that building will exceed all previous expenditures for this purpose. DPW has thus become an important patron of art in Canada.

The Committee is concerned about the consequences of this fact. The fine art program is now evidently to be applicable to almost every public building. The policy paper states that all new, renovated, existing or leased buildings "that have a visual impact on the public...whether interior or exterior shall be considered to be serving the public directly and artwork may be located where it can be seen and appreciated by the public and the general building population."<sup>14</sup>

This is an over-enthusiastic application of the policy. Not every federal building requires artistic embellishment, just as not every federal building need be monumental. There are other amenities which may legitimately be added to enhance public pleasure in the use of public buildings and which will meet the criteria set out by Mr. Desbarats that they have a life as long as the building itself. Some of these were suggested to the Committee by professional architects—the siting and landscaping of a building, the addition of fountains and open spaces, even the integration of federal buildings with local commercial activities.

The funds to be expended for fine art in public buildings should be considered as enhancing the prestige of the building and should be specifically identified and provided for by an item in the Main Estimates. Indeed under revenue dependency the isolation of the additional costs for prestige factors including the commissioning of fine art will be necessary to permit equitable assignment of rents. The National Advisory Committee should be renamed to reflect the assignment to it of responsibility for deciding on the choice of art objects, with DPW having the power of veto. In this way Public Works will be protected from serving as the arbiter of public taste in public buildings, but will be able to ensure that art objects which it considers inappropriate are not placed in government buildings.

**The Committee recommends that the present policy of providing an automatic one per cent of construction costs for fine art objects for each new public building should be discontinued. In its place there should be an annual appropriation of an amount roughly comparable to one per cent of the capital**

---

<sup>14</sup> Ibid. p. 3



**budget from which fine art may be purchased for buildings where prestige and aesthetic considerations justify. Responsibility for making decisions on the use of the funds should rest with a renamed National Advisory Committee, responsible for the selection of art objects with the Department of Public Works having veto powers.**

### **Leasing Space in Public Buildings to Commercial Enterprises**

The Committee examined the relatively new policy of the Department of Public Works of renting space in federal buildings, particularly in the Ottawa-Hull area for shops and various other commercial enterprises. The new policy arose from two conditions. First it was recognized that "there were in existence many instances of a public service or government activity being on the ground floor but where obviously much better use could have been provided by a more public or commercial venture. The inefficient use of a valuable commercial area was one factor." (1:37)

The second factor emerged from the Department's concern that its Crown construction program should make a greater contribution to the community. "Public buildings, because they are a nine-to-five operation, tend to sterilize the downtown core of any city" one departmental witness explained. (6:39) Starting with the Place du Portage Phase I building in Hull all the recent federal buildings acquired either by lease purchase or Crown construction have been designed with two or more lower levels of commercial space.

At the same time Public Works acquired a large number of commercial leases in buildings bought or expropriated between Wellington Street and Sparks Street in Ottawa to secure control of the area adjacent to the Parliament buildings.

The Minister gave a further explanation of why his department moved into the commercial letting activity.

We have two overriding aims in this practice, the first being to offset the costs to the public purse by recovering some portion of them from our tenants, and, perhaps even more important, to ensure that the public buildings enhance the communities in which they are located and provide desirable amenities to the public which they serve. (1:46)

The rental rates charged merchants by DPW are related to prevailing market rent based on a percentage of gross sales. A departmental official noted that standard commercial leases are used.

All of our leases provide for a minimum which is to recover our basic cost plus an industry-accepted percentage on gross sales, and all of them are subject to tax escalation clauses and operating escalation clauses, and in each case the tenant is responsible for paying his own taxes because under the rules we cannot pay taxes for private sector tenants. (4:22)

The forty architectural firms and associations who wrote to the Committee approved the inclusion of commercial space in federal buildings. The Royal Architectural Institute of Canada in their formal submission to the Committee wrote that:



All federal property can benefit from the integration of commercial and business activities with public-use accommodation. Such mixed development usually brings a more balanced use of space to the benefit of the general public. . . The practise will tend to extend hours of use past normal office hours and keep the area alive in off-office hours. (19A:5)

Two notes of caution were sounded by the professional community. First, DPW should undertake commercial letting only if the proposition is economically viable; and secondly, such facilities should not adversely affect existing neighbouring businesses “and thus erode the viability of those concerned and occasion commercial competition with the private sector.”<sup>15</sup>

Public Works is evidently sensitive to these consideration. In his opening statement the Minister noted that:

This commercial letting activity...may well be one of those areas of activity in which, because of its nature, the public sector is at a disadvantage vis-a-vis its private competitors. We are watching developments in this respect very carefully and are prepared to modify our activities and our position as experience dictates. (1:46)

### Other Commercial Clients

In addition to letting space in federal buildings for retail activities Public Works leases limited amounts of space not required by federal departments in federal buildings in hundreds of locations across Canada. Many of these federal tenants are provincial or municipal services but individuals also rent office space from Public Works.

The revenue from commercial leases credited to the Accommodation Program vote has become a significant return. Total revenues credited have grown from just over \$15 million in 1972-73 just before the commercial letting activity began to \$58,605,000 in 1977-78. This may well continue to increase. Until the projected growth requirements of user departments takes place substantial amounts of space will undoubtedly be available in the large federal complexes. The Committee sees no impediment to leasing such space to the private sector.

Under revenue dependency there will be more incentive for Public Works to seek tenants for general purpose buildings under its control in order to produce enough rent to ensure an adequate return on the capital cost of the building.

**The Committee approves the policy of letting space in general purpose federal buildings to commercial clients for retail operations. It further recommends that Public Works seek tenants for office space in public buildings surplus to current needs. This activity should be carefully limited to the use of unneeded space and should not become a business.**

---

<sup>15</sup> Letter from the Webb, Zekafa, Menkes, Housden Partnership, Toronto, Montreal

### Accessibility of Federal Buildings to the Handicapped

Public Works must take into account the needs of the general public in planning its buildings. Buildings such as post offices, Canada Manpower Centres and museums should be accessible to everyone. These buildings must be constructed in such a way that the handicapped are able to enter them unassisted. It is also important to provide facilities for handicapped federal employees working in federal buildings.

Several associations for the handicapped wrote of their concern that federal buildings in many areas are still inaccessible to their members. Post offices in particular were cited as inaccessible because of the number of steps, the type of exterior doors or the height of the wickets. Representations on behalf of the handicapped have been made by these associations to DPW and other government agencies.

The problem appears to have been difficult to resolve because no federal legislation enforces compliance with the supplement to the National Building Code issued by the National Research Council of Canada establishing standards for the adaptation of buildings to make them accessible to the handicapped. The National Building Code sets out uniform building standards to guide municipal, provincial and federal authorities in formulating standards legislation.<sup>16</sup>

Public Works has chosen voluntarily to follow the building standards set out to meet the needs of the handicapped, and client departments have cooperated in this decision. When fully implemented every public building will have one principal entrance designed for use by handicapped persons giving access to public spaces and elevators on the entrance floor. Where washrooms are provided for the public at least one will be adapted for use by physically handicapped persons. **The Committee agrees that federal buildings should in principle be accessible to the handicapped.**

---

<sup>16</sup> Canada. Associate Committee on the National Building Code, National Research Council, *Building Standards for the Handicapped* 1975, Supplement No. 5 to the National Building Code of Canada, Ottawa, 1975

### OPERATION AND MAINTENANCE—THE CONTINUING ADMINISTRATION OF ACCOMMODATION

The Property Administration branch is responsible for managing, maintaining and operating an enormous inventory of 6,370 Crown-owned and leased general purpose buildings as well as single purpose buildings in Ottawa-Hull and, under contract, some such buildings outside of Ottawa. Over half of the department's total authorized man-years are assigned to Property Administration branch activities. As of March 31, 1977 the operating personnel (4,420 man-years)<sup>1</sup> were assigned to the regional offices, including the National Capital Region. These include the classifications of Fire Fighters, General Labour and Trades, General Services, and Heating Power and Stationary Plant Operators. Personnel carrying out activities identified as "overhead" activities account for 560 man-years; only 8.4 per cent of this class of employee are located at headquarters, with the bulk being in the regional offices. (1:21)

The costs of routine operation and maintenance of the buildings on the Public Works inventory are a charge to the Accommodation Program. In 1976-77 these totalled \$203,650,000 and included, in addition to salaries and other items, repairs (\$35,148,000) and utilities, materials and supplies (\$60,873,000). A portion of these costs are recovered from client departments. (see Table 2, page 2)

The point of setting out these statistics is to underline the magnitude of the housekeeping job Public Works must carry out in consequence of being the largest property management agency in Canada. For example, the Cliff Street plant behind Parliament Hill is the largest heating and cooling plant in Canada serving 49 buildings in downtown Ottawa by a 2.5 mile underground distribution system.<sup>2</sup> As identified in the Public Accounts, expenditures are made by DPW for building cleaning contracts, garbage collection, light and power, water, fuel oil and petroleum products, caretaking supplies, light bulbs, flags and decorations. The provision of security services, parking places and catering facilities in public buildings, even the cost of moving public service tenants into DPW buildings all add to operational costs. A new housekeeping responsibility

---

<sup>1</sup> L. J. Brunette, A/Director General, Finance, Department of Public Works to the Chairman, July 26, 1977.

<sup>2</sup> Canada, Department of Public Works, *Annual Report, 1974-75*, p. 33

appeared in the Annual Report for 1976-77. Contract specifications were prepared in that year for the acquisition and care of plants "based on past experience and horticultural standards".<sup>3</sup>

Figures on the cost of the various operation and maintenance activities are now compiled as a base for the preparation of projections of operational life cycle costs. As a result, more accurate forecasts can now be made for the Operating Cost Plan which is a planning tool required under the Project Delivery System.

### **Fitting-up and Tenants Services**

A distinction has been made and supported in detailed instructions contained in the Treasury Board Guide on the Administration of Office Accommodation issued in May 1977, between the work performed by Public Works as a landlord in preparing premises for occupancy which is called fitting-up, and subsequent work arising from alterations requested by departments after occupancy, designated as tenant's services. Public Works pays for fitting-up, while the cost of tenant's services is recovered from client departments. The tenant, in this case other government departments, who wishes interior alterations, additional telephone or electrical outlets, screens and planters, closed circuit television, special decorating, etc. now uses Public Works to fulfill these requests, but is billed for this work and pays for it from departmental funds appropriated for this purpose annually.

These services have been a source of friction between DPW and its client departments. Both fitting-up and tenant's services are dealt with in the Treasury Board Guidelines on Office Accommodation issued in May 1977. These guidelines not only state the items which must be paid for by Public Works in fitting-up, but also set limits to funds which may be spent, thereby restricting the quality of materials and fittings to an extent which some departments have found restrictive. The Department of Labour wrote to the Committee that it had to use funds from its own program allotment for fitting-up to supplement what Public Works had done under the Treasury Board limitations. The Department of Justice also felt the fit-up of previously used space was inadequate. This department suggested that, since the price of materials varies throughout Canada, an allowance should be made for regional differences.

Those items specifically classified as tenant's services are set out in detail in an appendix to the guidelines. Departments are restricted in determining the quality of materials used in desired changes by the policy that states that "alterations and improvements carried out during occupancy as tenant services must not result in a quality of space higher than that permitted by the fitting-up standards".

---

<sup>3</sup> Ibid., 1976-77, p. 51



The guidelines reinforce the principle tenaciously adhered to by DPW that for general purpose accommodation Public Works has exclusive jurisdiction over property management and only Public Works can arrange for minor modifications and improvements. Although departments pay for tenants services, they must use Public Works to procure them.

Client departments responded to the Committee's invitation with critical comments on this situation. While they pay for alterations they are not allowed to see quotations received for the job. As the dollar limit on work which may be authorized by the DPW building manager is minimal, requests for tenants services are usually processed through several levels of authority in DPW. If plans and specifications are required before tenders are called, they are prepared under the direction of the Design & Construction branch located in the regional office. All this takes time. When the work is completed departments experience delays in receiving Public Works invoices, which causes budgetary control problems. This point at least has been dealt with in the guidelines. DPW is directed to invoice departments for tenant's services "as quickly as possible, and in particular, in sufficient time to allow departments to pay for work in the same fiscal year in which it is carried out". But guidelines do not always resolve problems.

Many small alterations can be handled more speedily and economically by small independent contractors. Instances have come to the Committee's attention of minor changes in office partitioning being arranged by DPW at much higher prices than those proposed informally by private contractors. The overhead costs for a large organization, which DPW is, are bound to be higher and work is certain to proceed slowly.

**The Committee recommends that client departments occupying general purpose Crown-owned accommodation be authorized to arrange for minor tenants services for which they would in any case be paying, to be undertaken by private contractors subject to the agreement of the Department of Public Works as owner.**

### **Routine Maintenance and Cleaning**

Maintenance, as carried out by Public Works, includes all those services which would be the usual responsibility of any private sector landlord. Stage 9 of the Project Delivery system (Operating/Maintenance) emphasizes that Public Works must be a prudent landlord.

Departments were asked to comment on the maintenance services provided by DPW. Of the twenty-three departments which replied, only eight reported that maintenance and cleaning arrangements were satisfactory. The discussion with representatives of client departments during the sub-Committee visit to the Western Region brought out some of the reasons for this. It was stressed that inadequate standards of cleaning and delayed or inadequate response by Public Works to requests for preventive maintenance and repairs

affects the morale of employees and lowers their respect for the premises occupied. Supervisors have observed that vandalism increases when the work area becomes run-down or dirty.

#### a) Maintenance

Under a revenue dependent system, Public Works will be the landlord of all general purpose accommodation and the client departments will be its rent-paying tenants. In order to make revenue dependency work, Public Works will have to provide preventative maintenance and repairs with greater efficiency than is now apparently the case. The Supply Administration of the Department of Supply and Services wrote, "DPW should improve its response time to user complaints and carry out better inspection procedures in order to ensure that a high state of repair is maintained for leased buildings".

Minor repairs which could be effected quickly constitute a source of considerable annoyance to tenants if there are delays in dealing with them. It might therefore be wise for Public Works to permit its tenants to contract directly with the private sector for minor maintenance requirements with the bill to be sent to DPW.

Under the privatization policy of the federal government, continuing efforts are being made to contract with the private sector for preventative maintenance and repairs. The Committee commends this initiative but cautions DPW against applying the policy on a wholesale basis. There are many cases where services and repairs provided by in-house maintenance staff could be contracted out to the private sector, but there are also cases where in-house or in-building staff can provide such services more efficiently and at less cost. If the latter is the case, Public Works should not hesitate to retain in-house staff for those premises. **The Committee recommends that in applying the federal government's privatization policy to its operations and maintenance, Public Works retain in-house capability where it costs less and is more efficient than contracting for the services with the private sector.**

#### b) Cleaning

Public Works has already given a large proportion of the routine cleaning to the private sector, or arranged with owners of leased premises that they do so. The department will always have to retain some staff of its own for cleaning areas where security is considered essential or possibly for large federal complexes where cleaning and routine maintenance will be a continuing activity. The decision to use in-house or contract staff for cleaning should be based on the requirements of each facility. The client department representatives stated that in their experience Public Works staff provided much better cleaning service than staff hired under contract. However, those in premises cleaned by contract cleaners could make no direct complaints about inadequate

performance because they are denied knowledge of the details of the contract specifying the services the contractor has agreed to perform.

DPW now applies a standard point system to evaluate cleaning performed under contract and since 1973 inspection has been regularly carried out. **The Committee recommends that the occupying department should be a participant in the inspection team rating contract cleaning companies for continued employment.**

### **Cyclical Redecorating**

Some client departments criticized the zeal with which Public Works performs some of its maintenance activities. Redecorating takes place on a prescribed schedule whether actually needed or not. While the number of buildings for which each region is responsible necessitates the scheduling of routine maintenance, the requirement should be based on the reports of inspection teams and not on an inflexible cyclical basis.

### **Informing Its Tenants**

One of the sources of friction between Public Works and client departments is caused by the fact that Public Works does not adequately inform the client departments occupying general purpose accommodation about the maintenance and other services which will be provided. This should be done without fail and in the fullest detail.

In a revenue dependent system general purpose accommodation will be leased by DPW to the client departments and the lease document should clearly outline the rights and obligations of both parties.

**The Committee recommends that in a revenue dependent situation a formal lease outlining all terms and conditions should be entered into between DPW and the client department. In any event DPW should always provide a clear summary of the maintenance and other services to which the client department is entitled.**

### **Maintenance of Single Purpose Accommodation**

The Committee has recommended that ownership of special single purpose space in Ottawa-Hull should rest with the department which required and paid for it. It follows that operation and maintenance as well as alterations of special single purpose buildings should also be carried out by the owner department in Ottawa-Hull as is now the case elsewhere in Canada. This does not preclude the possibility that Public Works may undertake this work under management contracts similar to those Public Works now has with the RCMP and the Department of National Health and Welfare for the management of some single purpose space owned by them.

### **Parking Space**

Introduction of revenue dependency will present a problem with regard to parking costs. Public Works now provides thousands of parking places for public service employees and visitors of client departments in both Crown-owned and leased accommodation. Treasury Board regulations require that some of the cost of providing parking should be recouped through charges levied on those employees using parking in public buildings in the central core areas of 22 urban centres. However, this rate is often well below the cost to Public Works of obtaining the space from the private sector landlord or of constructing it in a Crown-owned building. Each client department occupying space paid for by Public Works through the Accommodation Program also receives some free parking space for departmental vehicles and visitors.

These are now hidden costs. Under revenue dependency Public Works could no longer afford to provide this substantial subsidy to both departments and public employees. The costs would have to be passed on in the rentals charged to client departments. At that stage, the government would face the decision whether the full cost of parking should be recovered from employees or whether a portion of the cost should be charged to the client departments, and presumably a general principle would have to be adopted for all public servants.

### **Operation and Maintenance under Revenue Dependency**

The Committee is confident that the discipline imposed on Public Works as a revenue dependent landlord will directly meet many of the complaints now voiced by client departments. Fitting-up, tenant's services as well as routine operation and maintenance will then be provided on specified terms under the agreement made between Public Works and the client department, in which the standard of service will have to be spelled out. DPW will have to meet the obligations incurred in each agreement, and client departments in turn will have the basis for insisting on satisfactory service.



---

## CHAPTER 13

---

### PUBLIC WORKS AS A LEADER IN THE REALTY AND CONSTRUCTION INDUSTRIES

The Minister of Public Works and his Deputy Minister in their opening remarks about the role of the department both stressed that Public Works considers that it has a responsibility “to provide leadership on a national basis to the realty and construction industries.” There is a “special status accorded to DPW in this sense.” “There is imposed on the Department of Public Works an obligation for leadership.” (1:9)

This sense of responsibility arises from the impact of the extensive continuing contact of the department with the realty, professional consulting and construction industries. Mr. Williams explained:

Because of the national scope, the size, the variety, and the mix of professional skills involved in federal real property activities these groups properly look to DPW as a primary federal presence and as a major influence on the efficiency and progressiveness of their particular sectors of Canadian enterprise. (1:9)

While the private sector apparently does not generally acknowledge DPW's leadership, there was recognition that the sheer volume of work generated by Public Works provides an opportunity for testing innovations. The Royal Architectural Institute of Canada, in its brief to the Committee, commented that:

A building program on the scale of Public Works provides a potential ‘field laboratory’ through its building program for design/evaluation, building evaluation, controlled experimentation and assessment of building forms, techniques and materials. (19A:7-8)

The Minister of Public Works cited a number of programs through which his department considers it is exercising leadership—the Government of Canada Master Construction Specification System (GMS), Computer Aided Design Program, the Construction Investment Information System, the Energy Conservation Program and Metric Conversion Program. These were reviewed by the Committee and discussed with representatives of the realty and construction industry and associations of professional consultants.

### **Government of Canada Master Construction Specification System (GMS)<sup>1</sup>**

In the design and construction process, there are two major contract documents, the specifications and the drawings. The specifications take legal precedence over the drawings. They define the type and quality of materials and the methods and processes to be used in construction. Because of the need for accuracy, preparation of this document is time consuming and repetitive. The Government of Canada Master Construction Specification (GMS) greatly simplifies this task. It is a computer master text, in both official languages, of typical project specification clauses with alternative words and paragraphs most likely to be used in a wide variety of construction projects.

Development of the GMS began in Public Works in 1970. The desirability of having a single master specification for all federal construction works led to the formation of an inter-departmental committee representing the prime users—Public Works, Transport, National Defence and Indian and Northern Affairs. Industry, Trade and Commerce later joined the program to promote the extension of the GMS to the private sector as a national building specification but no private sector representation was added to the Committee. In 1974 the Treasury Board authorized the expenditure of \$750,000 on the development of the Government of Canada Master Specification System over the following three fiscal years.

Development of the GMS is now complete and updating well advanced. Existing departmental masters have been combined and new portions of specification texts have been written. Computer costs are borne by participating departments according to their use of the system. The GMS is managed and its computer terminals maintained at Public Works departmental headquarters in Ottawa. By the end of 1977 upwards of 25 project-related terminals were in use in regional offices of user departments across the country. Further additions are to be made as money and manpower becomes available for this purpose. The Department of Transport has made use of the GMS compulsory for all its construction projects since mid-1974. Public Works made it compulsory as of January 1978 for all its projects including those produced by consultants.

The benefits resulting from the development of the GMS have been substantial. Explanatory material provided by Public Works indicated that by using the GMS the time for specification preparation is reduced from 40% to 80% depending on the size and type of the project. In addition to providing improved quality and standard terminology, the text of the GMS is also “a major knowledge transfer document that can be applied to research and

---

<sup>1</sup> The Committee was given a practical demonstration of the operation of both the GMS and the Computer Aided Design Program at Public Works headquarters. The complexities of these programs were further explained by background papers. The summary descriptions of these activities are based on those papers and on the Annual Report of the Department of Public Works for 1976-77.

development in the construction industry.” This is an important consideration. A secondary but definite objective in developing the GMS was the possible promotion of it as a basis for a Canada-wide National Master Specification.

At the time of the Committee’s hearings, the private professional sector was apparently not very familiar with the GMS and its potential benefits. The Association of Consulting Engineers criticized DPW both for failure to consult the private sector before embarking on the project and for the actual system of specification. (18:20 and 18:13) One of the reasons for resistance to the development of either the GMS or a National Master Specification was stated in the hearing with this Association:

We do not feel, as engineers, that we really need it. There are certain portions of your specifications that can be standardized, but I can assure you that they become extremely cumbersome because they try to cover all aspects of all things in one standard. (18:18)

In correspondence from consulting engineers, doubt was expressed about the ability of Public Works to keep the GMS system up to date, and the criticism was made that it “covers the single and self-evident aspects of structural specification but neglects the complex sections.”

Opinion about the usefulness of a system of master specifications appears to have changed since this testimony was given and the correspondence received. A National Master Specification is now under preparation with the cooperation of Construction Specifications Canada—a national organization sponsored by the construction industry which includes members of the Association of Consulting Engineers. The objective of this body is “to further education and research in matters pertaining to construction documents and to promote publication and distribution thereof”. The National Master Specification will be developed and presented to the construction industry through this organization. It has scrapped its own preliminary independently supported study and the final National Master Specification will be based on the GMS. While the national project is just getting underway, full cooperation between Public Works and Construction Specifications Canada is evident. This organization is represented on the policy board of the GMS and officials working on the GMS have been appointed to the board of Construction Specifications Canada.

**The Committee concludes that the demonstrated benefits of the Government of Canada Master Construction Specification System (GMS) in the public sector justify its compulsory use by DPW and consultants retained by the federal government. The Committee commends the active involvement of Construction Specifications Canada, believing that the private sector will not find a National Master Specification adapted from the GMS to be useful unless it participates directly in its development and contributes continuously to its updating. Only if the GMS is regularly updated to take account of innovation in the field of construction will it serve the purpose for which it is intended.**

### **Computer Aided Design Program**

In September 1975, the Treasury Board gave Public Works authority to spend \$5,830,000 over a five year period on the Computer Aided Design Program. This money is to be spent on the development and installation of "a computing system that can be used simultaneously by a number of building designers to analyze and evaluate alternative solutions to architectural and engineering problems."<sup>2</sup> Through the use of the Computer Aided Design process DPW claims that it can effectively reduce the life cycle costs of federal government buildings by producing designs which can be built and maintained more efficiently and more economically. As part of its analysis and evaluation of alternative design solutions Computer Aided Design may also incorporate analysis of structural systems, energy systems, space allocations and environmental conditions.

At the present time the Computer Aided Design program is capable of storing plans and drafting information. This reduces storage requirements for plans; speeds up retrieval of plans and their detailed sections; speeds up drafting where there are repetitive requirements; improves the accuracy of measurements and calculations of the amounts of materials required and permits easy conversion to metric and back.

DPW has begun to involve the private sector and the universities in the development and application of its system of Computer Aided Design. The Committee suggests liaison with interested associations could also be helpful. The Canadian Construction Association brief observed that the construction industry "would be most interested in utilizing a computer aided approach to building design established in conjunction with the DPW, if this facility were to be made available. The benefits derived could only be positive."

In spite of the undoubted attributes of the program, there is insufficient information at present on the cost of making computer terminals available to all consultants in the private sector, the cost of training private consultants to use the computers and the utility of the system to consultants. This information will be critical to making a cost benefit analysis, which the department is in the course of carrying out prior to deciding whether to seek further funds to extend the program.

**The Computer Aided Design program is a worthwhile endeavour if at reasonable cost, it can realize DPW's goal of reducing the life-cycle cost of new construction. The Committee recommends that further funds be committed to the Computer Aided Design project only if the department concludes that the cost relates to the benefits to be obtained and if these benefits are reasonably within reach.**

### **Energy Conservation and Metric Conversion**

The Minister suggested that DPW was also exercising leadership in matters of public policy through two specialized activities, the energy conserva-

---

<sup>2</sup> Canada, Department of Public Works, *Annual Report 1976-77*. Ottawa, p. 22



tion program and the move towards metric conversion. (1A:5) Both of these new policy thrusts have been given high priority by Public Works. New techniques to conserve energy have been applied with evident success to the extensive inventory of buildings managed by DPW. Design proposals for new construction are assessed with the aid of another computer program, the Energy Systems Analysis. A training program has been set up to provide instruction in its application to both DPW and private sector engineers.

Preparations have been made to phase in the metric system in all DPW construction projects. Public Works has established liaison with other departments, other governments and institutions to share the results of its innovative efforts to realize the objectives of both of these policies. This cooperation is commendable.

### **Construction Investment Information System**

In his opening statement in November 1976, the Minister told the Committee that Public Works was also taking a lead role in an inter-departmental group working toward the development of a 'Construction Investment Information System' which was expected to be "a valuable tool for reducing cyclical instability in the construction industry." (1A:6-7)

Under this system, patterns of spending at the local level can be identified and a forecast made by sector. These forecasts, supplemented by research on the cost and availability of labour, materials and equipment will, it is hoped, make it possible to translate dollar demand forecasts into manpower, materials and equipment requirements and to foresee direct and indirect employment resulting from these expenditures. (1A:6)

In fact, the Construction Investment Information system does not yet exist in any useful form. A proposal to create a system along these lines was made by Public Works to the interdepartmental group representing 10 departments and the Economic Council of Canada. The latter showed scepticism regarding the potential of such a system to affect counter-cyclical spending. Nevertheless, it was agreed that Public Works should make a feasibility study and report back. The research on which this system would be based has been carried out by the Policy Research group of the departmental Planning & Co-ordination branch, but the report to be made on the basis of this research has not been prepared or considered. Any final recommendations made by the inter-departmental group will be directed to promoting overall government activity of which Public Works will be a part.

In the event that the Construction Investment Information System is developed further, the comments reaching the Committee about its probable reception by the private sector should also be taken into account. In letters to real estate developers and associated construction firms the Committee quoted the entire description of the purpose and context of the system contained in the Minister's statement, and asked if they might find it useful. Most felt it would be of peripheral value to the industry; it could never be more than an additional source of information. A developer contemplating large scale construction was interested in several other considerations. The Canadian Institute of Public

Real Estate Companies listed some of these—"the cost of money at any given time, expectations for future commitment for space, taxes and costs incurred during the processing period." (21A:5)

The Canadian Construction Association acknowledged that private enterprise would be "most interested in accurate forecasting of patterns of spending at local levels", but added "past experience with such government cyclical studies does not lend confidence in such a forecast." A. E. Lepage Limited described the present direct approach taken by developers to obtain information on which to base real property investment decisions:

At the present time with only a few telephone calls to contractors and sub-contractors we can identify the present cost of men and materials, and present building activity. A central computerized facility would not likely be of much use to our development management activities since the nature of this business relies heavily on person-to-person interactions. (20A:9)

The Committee is sceptical of the efficacy of attempts to organize counter-cyclical expenditure by the public sector to balance cyclical swings in private sector expenditure. Anti-cyclical spending on construction by government has generally failed, and because of time lags has often ended up reinforcing a boom in private construction. Experience has shown that a stable pattern of construction expenditures by DPW contributes most to a sound economy. The Committee's scepticism combined with the clearly expressed doubts of the private sector about the practical value of the Construction Investment Information System leads the Committee to question the utility of further work on its development.

**The Construction Investment Information System is of doubtful value as a source of information to the construction industry and as a counter-cyclical economic tool. The Committee recommends that further work on the development of the Construction Investment Information System be discontinued.**

## Conclusion

The discussion of these Public Works initiatives with private sector representatives brought out clearly that they do not instinctively accord Public Works a leadership role. The brief from the Association of Consulting Engineers made this point.

...the fact that the Department retains many consultants and can benefit as a focal point for their many systems, innovations, and input, may qualify it as a clearing house or information centre but does not establish it as a leader in planning, design, construction, metric conversion, specification writing, or energy conservation. (18A:10)

This view came through sufficiently strongly in the hearings of the Committee that in his final observations the Minister conceded that perhaps industry did not turn to Public Works for leadership. However, he stressed "both the obligation and the opportunity for leadership is there, and we are

determined to provide it to the fullest extent possible in those areas in which it would be appropriate.” (26:12)

D.P.W. is a service agency with a primary responsibility to the public sector. The search for new ways to improve service and reduce costs for its client departments must go on and this requirement and the scale of its activities puts Public Works in a position to share the results of its research and experimentation with private industry. This should be done by fostering every possible contact through associations, liaison committees, conferences and the like. The Association of Consulting Engineers made the point: “We have had no opportunity whatsoever to assist them in their leadership.” The message is clear—unless there is perceived collaboration with the private sector, Public Works’ efforts to provide leadership will not be recognized. The Minister has already accepted this. He acknowledged that “the criticism voiced by several of the private sector groups of the weakness in the consultative processes and information exchange between industry and government is, I think, a fair criticism.” (26:12)

At the final hearing, Mr. Mackay too indicated that the department now recognizes that it was a mistake to put too much emphasis on DPW’s leadership role. “We are not saying we are leaders, but we do have mechanisms to get parties together. The word “leaders” happens to be a misnomer, in my conception of the word.” (26:32) He reported that the department planned to organize regular meetings with consulting architects and engineers and their professional associations. The purpose of such gatherings would be to “air the problems as they see them...we are going to talk about joint ventures.” (21:23) A joint committee of DPW, the RAIC and the Association of Consulting Engineers was set up in mid-December 1977 to prepare for such a meeting which was held in March 1978.

This is a good beginning. DPW, as the largest realty organization in Canada, is in a position to be the natural leader if its work is innovative. It has the staff and the resources to carry out research and development of new techniques which can benefit the entire public and private construction industry. To be effective, however, **the Committee recommends that more emphasis be put on direct involvement of the private sector and universities in the department’s experimental work.**

While endorsing research and development of new techniques by DPW, the Committee also wishes to sound a note of caution. DPW should not seek to secure a position of leadership by directing a disproportionate amount of resources to experimentation. Therefore **the Committee recommends that research and development projects be continually assessed and that those projects which do not reach their goals within reasonable time and expenditure be dropped.**





## **PART III**

### **ADVISER AND ADMINISTRATOR: THE ASSIGNMENT OF PUBLIC WORKS IN THE MANAGEMENT OF FEDERAL LANDS**

TABLE 6  
FEDERAL LAND HOLDINGS BY DEPARTMENT  
AS OF MARCH 31, 1977

Department	Crown-Owned Acres	Leased Acres	Total
Public Works	124,190.98	44,752,235.15	44,876,426.13
Indian & Northern Affairs	30,953,423.99	242.40	30,953,666.39
National Defence	1,478,713.14	3,138,712.61	4,617,425.75
Regional Economic Expansion	1,246,716.38	954,022.71	2,200,739.09
Transport	320,149.64	4,485.60	324,635.24
Fisheries & Environment	122,528.38	3,655.05	126,183.43
National Capital Commission	108,748.37	174.70	108,923.07
Agriculture	33,698.54	39,677.06	73,375.60
National Harbours Board	57,168.52	1.90	57,170.42
Northern Canada Power Commission	26,552.10	—	26,552.10
St. Lawrence Seaway Authority	26,915.28	—	26,915.28
Atomic Energy of Canada	23,225.80	—	23,225.80
Canadian Penitentiary Service	12,048.43	71.00	12,119.43
National Research Council	6,176.30	151.20	6,327.50
Canadian Broadcasting Co.	2,732.59	124.92	2,857.51
Eldorado Nuclear Ltd.	134.50	2,475.20	2,609.70
Royal Canadian Mounted Police	2,215.61	110.77	2,326.38
Communications	2,187.30	.30	2,187.60
Energy, Mines & Resources	713.30	1,097.50	1,810.80
Central Mortgage & Housing	1,548.53	.20	1,548.73
Canadian Arsenals Ltd.	1,179.50	—	1,179.50
Northern Transportation Co. Ltd.	841.20	3.60	844.80
Veterans Affairs	660.60	.30	660.90
National Health & Welfare	501.94	77.76	579.70
National Revenue, Customs & Excise	251.52	17.30	268.82
National Battlefields Commission	235.00	—	235.00
External Affairs	67.40	29.60	97.00
Industry, Trade & Commerce	4.40	.90	5.30
Supply and Services	3.30	—	3.30
Manpower and Immigration	—	.40	.40
TOTAL	34,553,532.54	48,897,368.13	83,450,900.67

Source: Central Real Property Inventory

---

## CHAPTER 14

---

### THE FEDERAL LAND MANAGEMENT POLICY

The Minister of Public Works pointed out at the final hearing that “the federal land management policy has added a major dimension to the work of the department.”

It is the federal land management policy, with its emphasis on managing land in such a way that it contributes to the achievement of broader objectives than the accommodation of government services, that has brought to the fore a new awareness of heritage considerations, federal image, problems associated with urban renewal and regional development, and the consequential interest in, and involvement by, provincial and municipal authorities. (26:9)

The Land Management and Development Program first appeared as a separate vote in the estimates of the department in the year 1975-76. In 1976-77 the total program was allotted \$13,207,000 and 190 man-years. This vote finances work relating to land management carried out throughout the department in four branches, Property Administration (the administration of surplus property) Property Services (surveys, appraisals, expropriations and the disposal of surplus property), Property Development (the review of use of federal land and development for new use), and the Mirabel Special District (the management of peripheral lands at Mirabel).

Originally, the whole property function of the government was the responsibility of the Department of Public Works. However, the Glassco Commission found that by the early sixties real property operations were being carried on by several departments. It had become accepted that any department or agency could acquire land provided it received approval for the expenditure. The Departments of National Defence, Public Works and Transport as well as the National Capital Commission, were sufficiently active in the acquisition of land to have special staffs for this purpose.

Several criticisms of existing land management practices were made by the Glassco Commissioners. The principles of “fairness and expedition” were not being observed in expropriation practices.<sup>1</sup> Decisions on new acquisitions were being made without an adequate central inventory of existing holdings. The procedures governing the disposal of land were described as “cumbersome and archaic”, thus encouraging departments to retain rather than dispose of unneeded property.<sup>2</sup> Furthermore, there was no consistent policy for leasing federal property for non-government use.

---

<sup>1</sup> Canada, *Report of Royal Commission on Government Organization*, Vol. 2, “Supporting Services for Government,” Ottawa, 1962, p. 29

<sup>2</sup> *Ibid.* p. 30

The Glassco Commission accepted the inevitability of the massive involvement of the federal government in the question of land use. As the largest holder of real estate in Canada the federal government, through the acquisition and disposition of its property, had influenced the physical layout of many cities and towns. But the Glassco Commissioners also recognized the role of other levels of government and the need for federal authorities to co-ordinate their land management plans and to cooperate with provincial and municipal agencies. The Commissioners found that the various federal departments and agencies involved in land management were proceeding independently, and that "in such circumstances the application of a consistent federal policy with regard to land use, planning and development generally, is impossible." To overcome these shortcomings, the federal government would have "to play a full and effective part" with other levels of government in land management programs. Therefore, the Commission recommended that:

The Department of Public Works, in its organization for real property management, assign staff to be responsible for land use aspects of federal property ownership and to consult and cooperate with other levels of government and their agencies for the future development of urban, rural and regional areas.<sup>3</sup>

As a result of this and other related Glassco recommendations, the existing practices and policies regarding the use of federal land were reviewed. The compilation of the Central Real Property Inventory was launched in the late 1960s. In 1970 the Expropriation Act was revised and by 1973 a new formal policy on federal land management had been developed and approved by Cabinet. Each of these moves officially reinforced the role of Public Works as the chief administrator and key adviser on all activity relating to the management of federal real property.

### **New Policy on Federal Land Management**

In 1973 Cabinet approved the principle of a new land management policy intended to implement some of the Glassco proposals. A Treasury Board directive issued in 1975 stated the "basic principle."

...Federal lands should be managed so as to combine the efficient provision of government services with the achievement of wider social, economic and environmental objectives.<sup>4</sup>

This broad directive was commented upon briefly in an appendix of less than half a page which listed "typical factors to be considered," themselves couched in terms of complete generality. The appendix concludes with a further generalization:

The extent to which these factors will affect decisions on specific projects will vary depending on such other factors as location of the site, size of the project, timing and the nature of the departmental program need.<sup>5</sup>

<sup>3</sup> Ibid. p. 34-5

<sup>4</sup> Canada, Treasury Board, *TB Minute #736553*, Ottawa, May 29, 1975

<sup>5</sup> Ibid. A copy of the policy and the factors to be considered are included in Appendix B.



The Treasury Board circular through which the policy was introduced, also set out procedures to be followed in all land management transactions such as acquisitions, leases, changes in use and disposal.

This new policy applied within Canada to all departments and agencies listed in Schedules A, B, and C of the Financial Administration Act with the exception of Indian land, national parks and historic sites and territorial lands. Cabinet also directed that proprietary corporations (Schedule D) be encouraged to follow the policy, with responsible ministers being asked to report to the Treasury Board the extent to which these corporations intended to implement the policy.<sup>6</sup> Lands held by the National Capital Commission (NCC) were originally excluded, but were brought under the new policy in September, 1976.<sup>7</sup>

#### **Treasury Board Advisory Committee on Federal Land Management (TBAC/FLM)**

The 1975 Treasury Board circular also established the Treasury Board Advisory Committee on Federal Land Management to co-ordinate and direct the implementation of the new policy. It was given two main responsibilities: first, the development of guidelines and procedures for implementation of the policy, and secondly, the review of all land transactions. At the time the NCC lands were placed under the policy directive a third responsibility was added: the development of "appropriate guidelines for the leasing by the federal government of office accommodation in the National Capital Region."<sup>8</sup>

The members of the TBAC/FLM are the Treasury Board, the Ministry of State for Urban Affairs, the Department of the Environment, Central Mortgage and Housing, the Department of Public Works, and the National Capital Commission (if the land under review is in the National Capital Region). Each is assigned the specific responsibility for the formation of policy proposals "consistent with their departmental mandates."

The responsibilities of the Department of Public Works as set out in the T.B. circular are more detailed. Public Works is to provide "professional land-management advice and services to departments and agencies in the planning of real property requirements." It is to be the holding agency of lands declared to be surplus; it is to act as the "agent of the TBAC/FLM" in leading and co-ordinating the implementation of land-use review and it is to maintain the Central Real Property Inventory.

---

<sup>6</sup> Most of the proprietary corporations notified the Treasury Board shortly after the 1975 directive was issued that they would take the land policy into consideration when conducting land transactions.

<sup>7</sup> Canada, Treasury Board, *TB Minute #74442*, Ottawa, September 7, 1976

<sup>8</sup> Ibid.

The TBAC/FLM meets fortnightly and most of its time is spent reviewing land transactions. Until the fall of 1976 when the Treasury Board initiated a study of the work of the TBAC/FLM, little time was spent on developing procedures for implementing the land policy. Little or no time has been spent on developing guidelines for the leasing of space in the National Capital Region.

### **Area Screening Program**

The Committee has the impression that the TBAC/FLM has been floundering in its efforts to develop procedures for applying the land policy. A principal tool in this attempt has been the Area Screening Program which was introduced in an effort to fill a major information gap. Not nearly enough was known about the use of federal properties and their impact on specific communities and regions. Officials told the Committee that within a five-year period all federal holdings in urban areas would be systematically reviewed:

...in order to determine the efficiency of their present use and whether it conforms with the wider socio-economic and environmental objectives of the federal land management policy. (4:10-11)

In an area screening review a socio-economic profile of the community in which the federal property is located is prepared by the regional office of DPW. The land planning policies of the three levels of government are collated and an evaluation made of the current use of federal property against the objectives of the federal land policy.

Pilot studies were undertaken between October 1973 and March 1974. At that time, nineteen small-to-medium sized communities were chosen for study by a subcommittee of the TBAC/FLM which meets approximately three times a year to select areas for study. All pilot studies as well as completed studies are forwarded to the entire TBAC/FLM committee for consideration.

Initially all parts of the area screening review including the evaluation were prepared by the regional offices of Public Works, and this caused some difficulty. When these pilot projects were reviewed by the TBAC/FLM, objections were raised because only Public Works personnel were involved. The TBAC/FLM recommended that representatives of the local client departments whose property was being evaluated should be included in the evaluation process. But it was soon discovered that this procedure was too time-consuming. So early in 1977 a new procedure was designed involving a simple check list to be completed by each participating department. Only problem areas would be discussed at an evaluation meeting.

In spite of these difficulties, an ambitious work program has been prepared. One hundred and thirty-six regions or cities in Canada are to be evaluated at least once every five years and more often in special cases.

The Committee is doubtful that this effort and expense is justified by the results achieved. In the four years since the Area Screening Program started experimentally, three different procedures for collecting and evaluating data have been tried. Voluminous data have been collected and considerable time has been spent on assessment, but the program does not appear to be productive.

The Committee has reviewed one of the studies conducted under the Area Screening Program and this has confirmed its doubts. The compilation of data relating to the urban profile and the government land planning objectives in the community under review was largely irrelevant to the planning decisions required for the federal properties actually involved.

In defending the Program before the Committee, a departmental official noted that it could "identify a potential under-utilization, and perhaps a potential declaration of surplus." (4:17) The Committee recognizes the need for some mechanism to achieve this objective and will have more to say later in this chapter on that point. However, the present area screening program has not been effective mainly because it has attempted to evaluate both general purpose and special purpose properties and because the Treasury Board land policy directive is so vague that it virtually defies implementation. Accordingly, **the Committee recommends that the Area Screening Program be terminated.**

### Organization of TBAC/FLM Activity

The Committee has noted that the Treasury Board Advisory Committee on Federal Land Management has been operating on two levels, predominately on a routine administrative level involving the review of specific land transactions to ensure they comply with policy objectives, and recently on a policy level involving—in principle if not in fact—the development of directives for implementing the federal land management policy. Decisions relating to policy, however, should be made by representatives from senior levels of management of the member departments; the routine work of reviewing land transactions could be delegated. This division of function should be recognized administratively and the TBAC/FLM should be established on a two tier basis with different personnel.

At the present time the policy directive on federal land management is so general\* that those involved in its implementation do not have sufficient criteria upon which to base their decisions. Therefore, **the Committee recommends that the Treasury Board Advisory Committee on Federal Land Management (TBAC/FLM) be directed to develop guidelines for the implementation of the land management policy that are clear and concise. In implementing the Federal Land Management Policy the efficient use of federal property should be given clear priority over the other objectives.**

\*See Appendix B

### Acquisition by Expropriation

Since the Glassco Commission there has been some consolidation of responsibility in the field of acquisition. The Expropriation Act was revised in 1970 to give to Public Works the sole responsibility to act in the expropriation of land required by federal departments and agencies except for the Canadian National Railways. The revised Act was designed to overcome the criticism that federal expropriation practices failed to observe the principles of fairness and expedition.

The 1976-77 DPW Annual Report notes that the volume of expropriations is increasing.<sup>9</sup> The scale of these operations has prompted Public Works to prepare guidelines which have been approved by both Public Works headquarters and the Department of Justice on the division of responsibilities arising from compliance with the Expropriation Act. While many of the procedures have been delegated to the DPW regional office, there is considerable involvement by DPW headquarters in the major expropriation cases.

The largest expropriation activity ever undertaken by the Government of Canada was the expropriation for the Mirabel Quebec Airport Special District, and through this activity guidelines were established for large expropriation projects. The Annual Report notes that for the Mirabel site over three thousand settlements have been concluded to date and approximately one hundred cases are outstanding.<sup>10</sup> The second largest expropriation action undertaken by the Crown involved the land for a new airport at Pickering, Ontario. Over seven hundred interests were involved, and 275 cases remain outstanding.<sup>11</sup>

Expropriation is a sensitive operation. Even with the provisions in the revised Act to ensure fairness and expedition, expropriation is a procedure which arouses public reaction. The Committee has formed the impression that the Department of Public Works has been undertaking its responsibility for conducting expropriations on behalf of the federal government with commendable discretion.

### Acquisition by Purchase

Real property can also be acquired through purchase. While DPW has the sole right to expropriate, it does not have exclusive jurisdiction in the purchase of property.<sup>12</sup> It was estimated by a DPW official however, that Public Works

<sup>9</sup> Canada, Department of Public works, *Annual Report 1976-77*, Ottawa, p. 15

<sup>10</sup> *Ibid.* p. 16

<sup>11</sup> *Ibid.*

<sup>12</sup> The Government Land Acquisition Regulations made under the Financial Administration Act (PC 1966-514, 17 March, 1966 and PC 1967-1281, 22 June 1967) give all departments listed in Schedule A of the Act authority to acquire land.



now negotiates the acquisition of approximately 90 per cent of “ the acquisitions of land for various government departments.” (8:10) For example, DPW now negotiates land acquisitions on behalf of the Ministry of Transport. This was effected through the transfer of both the staff and the function of acquiring properties from the Ministry of Transport to DPW in 1971 when Public Works assumed responsibility for all expropriations. (4:33)

Some departments and agencies still exercise their statutory authority to act for themselves in the purchase of land. National Defence, the National Capital Commission, Agriculture and the National Parks Branch of Indian and Northern Affairs continue to purchase land on their own behalf, and maintain staff with particular expertise in land acquisition. (4:32) DPW would like to handle all acquisitions by purchase as well as by expropriation but these departments are reluctant to give up this power. “I think some departments have some fear that their needs would not be given the same priority as they give them themselves with their own staff”, a Public Works official explained. (8:11)

The Committee debated whether to recommend that all departments be required to use the services of Public Works in the acquisition of real property by purchase. Such a recommendation would be consistent with the principal recommendation that DPW be declared the primary realty agent of the federal government in the provision of accommodation and related real property services. It was, therefore, important to examine the reasons why each of the four exceptions continued to acquire land on their own behalf. The three departments will be discussed together; the NCC, which is an agency corporation, will be discussed separately.

### **Acquisition Activity by Other Departments**

Acquisition activity by the Department of Agriculture is limited to the purchasing of property for experimental farms or for additions to existing farms. The number of transactions is small; during 1977-78 only two farms were purchased, one for \$80,000 and the other for \$25,000. The acquisition of a new experimental farm in New Brunswick at a value of approximately \$200,000 is planned for 1978-79. The Department utilizes the services of DPW to negotiate the acquisition of property for other uses, and even in the purchase of experimental farms, the Department relies on Public Works for appraisals. When interviewed officials of the Department of Agriculture maintained that the purchase of farms is a specialized activity—detailed knowledge of types of land, soil, elevation and so forth are required to carry out on effective negotiations.

Although the Parks Canada Directorate of the Department of Indian and Northern Affairs continues to exercise its statutory authority to acquire property, departmental officials rely on DPW for advice and for appraisals.

Acquisitions under the National Parks Act are usually extremely large and are often carried out by the provincial government involved so as to ensure acquisition of sub-surface rights at the same time as the surface rights. Moreover, there is a particular sensitivity about negotiations to acquire recreational land, once a suitable site has been determined, and the directorate feels it is better prepared to conduct these negotiations. However, the directorate uses Public Works to negotiate the purchase of property when a large number of individual owners are involved. DPW recently negotiated the purchase of three hundred cottages in Point Pelee National Park in south western Ontario for example.<sup>13</sup> The greater number of land transactions conducted by the Parks Canada Directorate are carried out under the authority of the Financial Administration Act; these include canals and properties adjacent to national parks.

The Department of National Defence is one of the major federal land owners; approximately 35 per cent of federally owned land other than the large land areas held by the Department of Indian and Northern Affairs is controlled by DND.<sup>14</sup> Although the department has not had a major acquisition within the last ten years, numerous small parcels of land (e.g. an acre for a radar station) are acquired annually. DND does use Public Works for appraisals if DPW personnel are available; otherwise, DND handles all the arrangements itself. DND argues that its continued reliance on its own personnel to negotiate land transactions is necessary to ensure completion in accordance with DND priorities.

The Committee concludes that it is reasonable for the Parks Canada Directorate of the Department of Indian and Northern Affairs to acquire properties under the National Parks Act and the National Historic Sites and Monuments Act and for the Department of National Defence to acquire property for defence-related projects on their own behalf. At the same time, these departments should continue to utilize the services of Public Works for the appraisals of these properties and they should be free and encouraged to use DPW to make acquisitions for them. All other acquisitions of property in Canada for these departments should be made by Public Works. It makes particular sense that the Department of Agriculture with its minimal program of acquisitions for experimental farms should use the services of DPW rather than have a staff of its own.

### **Acquisition Activity of the National Capital Commission**

The fourth department or agency which conducts its own acquisition activity is the National Capital Commission. Under its enabling legislation the

---

<sup>13</sup> Land is also acquired by the Parks Canada Directorate under the National Historic Sites and Monuments Act. Treasury Board approval to acquire this land is required regardless of price.

<sup>14</sup> Letter to the Chairman from C.R. Nixon, Deputy Minister, Department of National Defence, June 1, 1977

NCC is authorized "to prepare, plan for and assist in the development, conservation and improvement of the National Capital Region" but in order to do this, the federal government—chiefly through the NCC—has had to buy or expropriate property. This is based on the theory that it can control what it owns. In fact, the NCC has operated as land bank agency in the National Capital Region to protect property required to implement its long-term development plans. As a result of this land activity, the federal government now owns 29 per cent of the total land in the urban part of the area, thus giving it the power to influence the planning of the National Capital Region. "Neither the municipal nor provincial government has jurisdiction over this land, and the federal government is not required to conform to local by-laws or provincial licensing requirements."<sup>15</sup>

The NCC is the principal but not the sole federal land owner in the region. While Public Works has substantial holdings, the distinction is made that the NCC is responsible for acquiring land in advance of need, whereas DPW is responsible for acquiring land "only in relation to a specific existing need". This distinction has been considerably blurred as DPW has extended its acquisitions, particularly to protect property close to Parliament Hill for future expansion of the 'parliamentary precinct'. Some 'specific existing needs' for various reasons have not materialized. This has created problems between the NCC and DPW over acquisitions where the future use of the land was not clearly defined. Both NCC and DPW officials, however, assured the Committee that these differences have been resolved and that a spirit of cooperation exists. In any case the National Capital Region Land Use Committee, established in 1975, reviews all policies and plans requiring land use changes proposed by its individual members, the major federal land-owners in the region.

The NCC maintains its own acquisition staff and does not utilize DPW staff for appraisals. By law, the NCC must rely on Public Works for expropriations, but in such cases DPW oversees the transaction and the NCC takes responsibility for obtaining the appraisals and for conducting the negotiations.

The NCC is an agency corporation which is responsible for the development of the character of the National Capital. One way in which the NCC can accomplish this objective is through the ownership and use of land. In order to be a land bank, the NCC must have the ability to acquire land. Delegating this responsibility to Public Works would fundamentally alter the role of the NCC. Therefore, in addition to the Parks Canada Directorate and National Defence mentioned above, the Committee concluded that it is reasonable for the NCC to retain its own experienced personnel to conduct negotiations for land required to carry out its statutory responsibilities in the National Capital Region. All other acquisitions should be made through Public Works.

---

<sup>15</sup> Douglas H. Fullerton, *The Capital of Canada: How Should It Be Governed?*, Ottawa, Vol. 1, 1974, p. 55

**The Committee recommends that all property required in Canada by federal government departments or agencies be acquired solely by DPW except:**

- a) property acquired by the National Capital Commission to carry out its statutory responsibilities in the National Capital Region;
- b) property acquired by the Parks Canada Directorate of the Department of Indian and Northern Affairs under the National Parks Act and the National Historic Sites and Monuments Act;
- c) property acquired by the Department of National Defence for defence-related projects.

### **Disposal of Surplus Real Property Holdings**

The 1975 Treasury Board circular on federal land management policy instructed all departments and agencies to "report to DPW any real property holdings which are no longer required to meet their operating needs."<sup>16</sup> These holdings would be transferred to DPW and Public Works would act as a holding agency until some decision about an end-use had been made by the TBAC/FLM.

The disposal action takes place only after DPW has notified other departments which might be interested in the property and after concurrence has been received from the Treasury Board Advisory Committee on Federal Land Management. The property is appraised and provincial and municipal governments are notified that it is available. If they do not wish to use it, the property is advertised for sale to the general public. (4:20)

According to a 1964 Cabinet directive<sup>17</sup>, surplus land is to be sold at market value; however some exceptions are made. In the event that there is a significant provincial or municipal interest in a surplus property which the federal government shares, it can be transferred for a token payment of \$1. Title to land which becomes surplus is sometimes returned to the original owner "to avoid the perpetuation of a distinct parcel which, except for the original requirement, would not otherwise have been created." The example of an abandoned radar station which had been acquired in the centre of a farm was cited. (4:20)

Before 1975 ninety-seven per cent of surplus lands were sold. However, the 1975 Treasury Board policy stated:

Federal land holdings which are no longer required to meet the operating needs of particular departments and agencies will normally be retained in federal ownership to help achieve broad government objectives."<sup>18</sup>

<sup>16</sup> Canada, Treasury Board, *TB Minute #736553*, Ottawa, May 29, 1975 p. 6

<sup>17</sup> Record of Cabinet Decision, Meeting of August 20, 1964, Cabinet Document 360-64, July 27, 1964, issued August 25, 1964

<sup>18</sup> Canada, Treasury Board, *TB Minute #736553*, Ottawa, May 29, 1975, p. 1



This policy change has had a considerable impact. In the fifteen months after the directive stating this policy was circulated, 40 per cent of the surplus acreage was redeployed for other federal uses, 32 per cent was leased, mostly to the private sector and only 26 per cent was sold or transferred, mainly to provinces and municipalities. (4:12) Under the former policy, such land would have been offered to other levels of government or sold. But the 1975 Treasury Board directive prevents this. The Committee is disturbed by the implications of this decision. The Minister of Public Works at his final meeting with the committee revealed that he shares this concern:

One of these problems flows from the principle that, as a general rule, federal land should not be disposed of permanently. On the one hand a rigid application of this principle prevents or makes more difficult the transfer of surplus federal properties to municipalities where they could meet important local needs; on the other, it results in the transfer to DPW inventory of properties surplus to the needs of operating departments, but for which the highest and best use may well be outside the federal sphere of responsibility. (26:10)

The Committee considers that this policy directive has resulted in increased and unnecessary costs to the federal government. There can be valid grounds for holding property, but there are real costs in doing so. **The Committee recommends that the decision to retain the ownership of surplus federal properties should be reversed.**

To the extent that DPW incurred costs in disposing of surplus property for which it was not reimbursed through a commercial sale, e.g. if the property were to be given to a municipality as a park at no cost, DPW should be reimbursed through appropriation.

### **Disposal of General Purpose Land**

It has been proposed elsewhere in this report that Public Works should own all federal Crown-owned general purpose accommodation which by implication includes land. The introduction of this principle would transform the problem which now exists of deciding on the disposal of surplus general purpose land. Departments now hold property at no cost other than internal administration. But if departments are charged through a lease the full cost of holding property, there would be a powerful incentive on them to re-examine their needs and to relinquish that which they did not require. However, the decision would be taken by each department based on its own needs. DPW will naturally continue to review their portfolio of general purpose accommodation on a regular basis and make proposals for better use of those federal properties in conformity with the federal land management policy. The discipline of revenue dependency will encourage DPW to declare surplus any general purpose property which it cannot lease to a user department.

### **Disposal of Single Purpose Land**

This leaves the problem of single purpose land and properties. In these instances, there would be no financial constraints. Nor is there any useful guidance to departments. The definition of surplus land in the Treasury Board

circular is very general. It is “land which is no longer required to serve the program needs of a user department.”<sup>19</sup> This generalization is not supported by any guidelines or criteria which could be used by Departments in determining whether property is surplus to need. The Deputy Minister of Public Works undertook to relay the Committee’s view that such guidelines should be drafted to the TBAC/FLM. (4:34) The Committee understands that no guidelines have yet been adopted. This is a necessary tool and the guidelines for the determination of surplus property should be elaborated. This will be no easy task because comprehended in single purpose land will be very large holdings in the hands of the Department of National Defence (military bases) and the Department of Indian and Northern Affairs (national parks). The properties will also be extremely diverse in character, ranging from penal institutions to specialized laboratories.

The Committee is of the opinion that, in the absence of a financial constraint—which will not exist in the case of single purpose properties—some procedure must be introduced to ensure periodic assessment of all such holdings to establish continuing need. This assessment should be carried out by the TBAC/FLM on the basis of information supplied by DPW and against the guidelines for the determination of surplus property recommended above. Departments would then be forced to review and justify their holdings of single purpose property. **The Committee recommends that the TBAC/FLM should undertake a regular review of all single purpose properties to determine if there is under-utilization and whether the property should be declared surplus and disposed of.** A recommendation by the TBAC/FLM to declare a property to be surplus could be appealed by the user department to the Treasury Board.

---

<sup>19</sup> Ibid. Appendix B, Definitions

## CENTRAL REAL PROPERTY INVENTORY

“The Central Real Property Inventory (CRPI) is a perpetual central record on computer tapes of the real property owned or leased on behalf of the Crown by federal departments and agencies.”<sup>1</sup> The Treasury Board Real Property Inventory Regulations require each federal authority administering property to report its holdings regularly to the Department of Public Works.<sup>2</sup> Public Works is a reporting department as well as the “custodian and compiler”<sup>3</sup> of the CRPI. The CRPI does not contain as detailed information as the specialized inventories Public Works maintains of the real property which it directly controls for its own purposes.

The CRPI has two main uses, the first of which is to establish the extent of the real property assets of the federal government. The requirement to report specified information on a standard form to the CRPI uncovered discrepancies relating to surveys and land titles. It was discovered for example, that some federal buildings or facilities had been erected on what was commonly regarded as Crown land, when in fact it was not Crown land.

The CRPI has a second and more important use as a planning tool for user departments and agencies including Public Works, for the Treasury Board Advisory Committee on Federal Land Management, and for others. Its potential in this regard has not yet been fully realized.

### Development of the C.R.P.I.

The need for an inventory of federal real property has been recognized for many years and unsuccessful attempts were made in 1934 and again in 1954 to compile one. By 1956 an elementary record, the Crown Land Registry, had been prepared by Public Works. The Glassco Commission found this inadequate and recommended the compilation of a “complete and all embracing” inventory which would provide a basis for making informed decisions about

---

<sup>1</sup> Canada, Department of Public Works, *Central Real Property Inventory (CRPI)* brochure

<sup>2</sup> Canada, Extract from the Minutes of a Meeting of the Honourable the Treasury Board, held at Ottawa, May 30, 1966 (T.B. 655499), Regulations Governing a Complete Inventory of Real Property

<sup>3</sup> CRPI brochure

land management. The information about each property listed should, therefore, include "the use to which it is being put, the structures standing on it, the cost and date of acquisition, the value assigned, if any, for the purposes of making grants in lieu of taxes, utility services, and the like."<sup>4</sup>

A Cabinet directive issued in December 1962 instructed the Department of Public Works to undertake the establishment of a new and more comprehensive inventory.<sup>5</sup> This directive did not specify the degree of compliance required by the reporting authorities.

In May 1966, a Treasury Board Minute set out the regulations governing the collection of information and the maintenance of the inventory. A Public Works official explained that they were based on the concept that "lands owned and under the sole direction and control of federal departments and agencies and capable of being used and re-used would be recorded in the inventory." (4:25) Section 4 dealt with Reporting:

The appropriate Minister, or such officer as he may designate, shall require each department or agency for which he is responsible, to report to the Inventory of Real Property a record of all real property held by such department or agency, and, as changes occur, a record of such changes, such records to be in the form that the Minister shall prescribe.

The Minister is further required by Section 6 to report any failure to comply with Section 4.

The terms "property" and "real property" were closely defined for reporting purposes and some exceptions specifically allowed. They include the extensive areas of unpatented lands in the Yukon and Northwest Territories which are not "set aside for use by a Department or Agency," Indian Reserves as defined in the Indian Act and lands held in trust pending repayment of mortgage or other loans by CMHC or under the Veterans Land Act, the Farm Credit Act and the Prairie Farm Rehabilitation Act. Another exclusion is the operating lands of the railroads under the CN-CP Act.<sup>6</sup>

At the present time approximately 35 million acres of Crown land are recorded in the Central Real Property Inventory, and it is estimated that 95% of the land owned and leased by the reporting authorities has now been recorded. Each entry contains the name of the responsible agency, location, size, improvements, use and other characteristics of every identified parcel of federal land. (4:10) Each reporting authority is required to report immediately all new acquisitions, freehold or leasehold, and any change in use, including improvements as they occur. The "installation" or unit of real property

---

<sup>4</sup> Canada, *Report of the Royal Commission on Government Organization*, Vol. 2, "Supporting Services For Government," Ottawa, 1962, p. 30

<sup>5</sup> Canada, Department of Public Works, *Central Real Property Inventory User's Manual*, Ottawa, 1977, p. 1

<sup>6</sup> Canada. Treasury Board, Op. Cit.



reported may be any size as long as it is one continuous piece of land, has one predominant use and is held under one form of tenure by the authority reporting it.<sup>7</sup>

### Uses of the C.R.P.I.

The Committee was impressed with the practical applications that can be made of the information collected in the Central Real Property Inventory. Its most obvious use is as a planning aid to a department or agency which needs more property. The annual printout, distributed to all users, categorizes the information on the property holdings according to major headings including those sites which are under-utilized or are surplus. Specialized reports can be prepared, tailored to meet the needs of the user. The Municipal Grants Division of the Department of Finance has used the inventory as a check against their records of properties on which grants are paid. The Department of the Environment has its holdings printed by program and has used this for internal administration. The Public Service Commission has used the inventory to pinpoint areas where there are concentrations of public servants. In determining how many bilingual signs were needed, the Department of Supply and Services used this resource to tabulate the number of federal government buildings. The inventory has also been used as a source of information for the Federal-Provincial Relations Office and the Royal Commission on Financial Management and Accountability. Within Public Works, the inventory has been used to provide information on buildings and their location for the Dominion Fire Commissioner as well as for staff members involved in the area screening program and studies on heritage buildings, urban planning and urban renewal.

Continued use of the CRPI has resulted in changes and improvements in the type of information now contained in the print-out. Originally only sites that were entirely vacant were so identified, thereby omitting to categorize under this heading sites which were not fully utilized and which might be available for further development. Now the proportion of any site which is not in use is identified.

Many departments and agencies are not fully aware of the potential value of the inventory as an aid to real property planning. It is possible that for some departments on-line computers linked to the inventory could be helpful. **Public Works should continue to assist reporting agencies in discovering how to use the Central Real Property Inventory more effectively. Now that most departments and agencies are reporting their holdings on a regular basis, it is time for Public Works to take more initiative in showing the more sophisticated uses of the inventory.**

---

<sup>7</sup> CRPI brochure

### Non-Compliance with C.R.P.I. Directives

One of the administrative problems which Public Works encounters as custodian of the Central Real Property Inventory is the failure of some departments and agencies to report holdings to the inventory. All federal departments report their holdings except External Affairs which has resisted updating the property under its control outside Canada for the past four years. External Affairs defends its position by stating that it already maintains an inventory of its own for operational purposes, and that the information contained therein would be of little use to other departments. Reporting to the CRPI would merely cause additional work without additional benefits.

Since the Department of External Affairs has responsibility for all federal accommodation outside Canada—a decision which the Committee considers to be reasonable and since external needs differ from domestic needs and are specialized, the **Committee concludes that it is also reasonable for External Affairs to maintain the inventory of all government-owned and leased property abroad.** While the inventory need not be maintained in identical form, it should where possible be compatible with the larger operation established by Public Works. This would allow for the compilation of material using the two inventories if need arose. **Treasury Board should establish standards for the inventory of Crown-owned and leased property outside Canada maintained by the Department of External Affairs.**

The omission of property located in Canada, however, is seen by Public Works as more serious. The brochure prepared about the CRPI explains it this way:

Some proprietary Crown Corporations have not yet reported their holdings to CRPI and consequently may not be aware of how useful this unique source of information could be to them. Their input into CRPI would keep other departments and agencies informed about their holdings, and they in turn could plan more efficiently within the context of an output tailored to their own requirements.

The Committee was told that there are five agencies not reporting apart from External Affairs. With the exception of the Bank of Canada they are all proprietary corporations named in Schedule D of the Financial Administration Act. One is Canadian National Railways whose operating lands under the CN-CP Act are specifically excluded by the regulations. The remaining three are Canadian Overseas Telecommunication Corporation (now part of Tele-globe Canada), Cape Breton Development Corporation and Air Canada. It should be noted that all Schedule C and five other Schedule D corporations with land holdings do report voluntarily although there is no statutory authority to require them to do so.<sup>8</sup>

It is regrettable that these federal organizations have not reported since the CRPI would then become a fully comprehensive record of federal holdings.

---

<sup>8</sup> For a complete list of Reporting Departments and Agencies see: Proceeding 4A:2

Likewise, the act of reporting could be expected, as with department compliance, to bring inaccuracies to light.

There are further advantages to be gained by compliance. The departments and agencies reporting to the CRPI are entitled to use it "in the manner most suited to their individual needs."<sup>9</sup> As indicated, new uses are discovered as familiarity with the operation of the inventory increases. The CRPI has already proved to be a useful planning tool because it is a readily accessible source of information about surplus or under-utilized Crown-owned property. In fact, the CRPI, according to the Public Works Annual Report 1976-77, "has been designated as the procedural point of contact for all transactions involving surplus real property." In 1976-77 150 properties for disposal by either transfer or sale were offered and cleared with all departments and agencies by the CRPI.<sup>10</sup>

Departments negotiating for land revealed by the CRPI to be surplus face a special situation if the land is owned by a Schedule D corporation which reports to the CRPI. When two government departments exchange property, no funds change hands and the transaction requires only an Order-in-Council. Moreover, if a departmental holding is sold to a non-governmental agency, any funds realized are deposited in the Consolidated Revenue Fund. Schedule D corporations act largely like private corporations. They hold title to property and, if they dispose of a holding, even to a government department, the title is sold for cash and the funds realized are retained by the corporation. There is, therefore, no difference for a government department between securing property from a private owner and from a Schedule D corporation.

This latter situation leads the Committee to conclude that the omission of the Bank of Canada and three Schedule D corporations does not jeopardize the CRPI as a planning tool. Nonetheless **Crown corporations can derive benefit from compliance with the Central Real Property Inventory Regulations. The Committee accordingly recommends that the Treasury Board draw them to the attention of the Ministers responsible for these organizations. Both the appropriate Minister and the Treasury Board should review any reasons advanced for non-compliance.** But the circumstances do not justify enforced compliance by Schedule D corporations.

---

<sup>9</sup> CRPI Brochure

<sup>10</sup> Canada, Department of Public Works, *Annual Report 1976-77*, Ottawa, p. 16





## APPENDIX A

### A CHRONOLOGY OF EVENTS RELATING TO COST RECOVERY

1960 —In his 1960 Report, the *Auditor General* pointed out that under the existing governmental practice, the appropriations for each department did not provide for charges for office or other premises occupied because these costs, including rentals paid, were recorded as expenditures of DPW. He pointed out “that although the expenditure total may be correct for all of the departmental services as a whole, expenditures are thus erroneously stated for the individual departments and appropriations.”<sup>1</sup> He recommended changing this procedure so that “parliamentary appropriations might more accurately record the expenditures incurred for the various services.”<sup>2</sup>

1961 —The *Public Accounts Committee* discussed this matter with the *Secretary of the Treasury Board* in 1961. As a result, the committee in its Fourth Report 1961 recommended the adoption of the proposal which Treasury Board had made to distribute for information purposes the costs of major common services which were provided to other departments without a corresponding charge to their appropriations.<sup>3</sup>

1962-63 —These charges for major common services were shown for each department's estimates in the Blue Book 1962-63. A sample of this format is shown on page 178.

—The Royal Commission on Government Organization (*Glassco Commission*) recommended that departments and agencies be charged for accommodation and real property services rendered by DPW:

“only thus will departments be aware of the monetary consequences of their space requirements.”<sup>4</sup>

---

<sup>1</sup> Canada, Senate Standing Committee on Finance, *Minutes of Proceedings and Evidence*, 8, November 3, 1964, p. 237

<sup>2</sup> Canada, House of Commons Standing Committee on Public Accounts, *Minutes of Proceedings and Evidence*, 19, June 19, 1961, p. 565

<sup>3</sup> *Ibid.*

<sup>4</sup> Canada, *Report of Royal Commission on Government Organization* Vol 2, “Supporting Services for Government,” Ottawa 1962, p. 57

Positions (man-years)		POST OFFICE  Details of Services	Amount	
1962-63	1961-62		1962-63	1961-62
			\$	\$
		<b>Approximate Value of Major Services not included in these Estimates</b>		
		Accommodation (provided by the Department of Public Works) . . . . .	23,411,200	
		Accounting and cheque issue services (Comptroller of the Treasury) . . . . .	576,200	
		Contributions to Superannuation Account (Department of Finance) . . . . .	7,273,900	
		Employee-surgical-medical insurance premiums (Department of Finance)	1,117,000	
		Employee compensation payments (Department of Labour) . . . . .	212,000	
		Carrying of franked mail (Post Office Department) . . . . .	563,300	
			<u>33,153,600</u>	

To achieve these figures the Treasury Board and DPW developed a formula to establish a fair figure for rental costs.

1963 —The *Public Accounts Committee* discussed the recommendations of the *Auditor General* on the form and content of the Estimates. In their Third Report (Dec. 19, 1963) the Committee recorded its approval of the suggested improvements, one of which was the introduction of interdepartmental billing for services rendered. However, the Committee stated that implementation of these should be delayed until the introduction of programme budgeting.<sup>5</sup>

1964 —In 1964 the *Senate Standing Committee on Finance* presented its report, part of which dealt with an examination of the Glassco recommendations. In response to the recommendation that the cost of major common services be charged to user departments, the Senate Committee agreed with the principle of this recommendation so long as its implementation did not superimpose an elaborate or expensive system.<sup>6</sup>

1966 —In his 1966 Annual Report the *Auditor General* recommended that clearer information concerning the actual financial results of departmental trading and serving activities should be provided to Parliament. This would include charges for the value of services provided without charge by other departments.<sup>7</sup>

1966-72—This recommendation was repeated each year.

1970 —In their First Report 1970-71, the *Public Accounts Committee* noted the increasing costs of rentals by the Crown and recommended that accommodation, repair and damage costs be made a charge to each department's appropriations, rather than to DPW. The Committee was of the opinion that such a charge would make departments willing to seek more modest accommodation.<sup>8</sup>

1973 —The *Department of Public Works* accepted the 1970 recommendation of the Public Accounts Committee about charging for services. The department made a submission to *Treasury Board* in December of 1973 on this subject. At that time it was felt that

---

<sup>5</sup> Canada, House of Commons, *Journals*, December 19, 1963, p. 708

<sup>6</sup> Canada, Senate, *Debates*, November 25, 1964, p. 1133

<sup>7</sup> Canada, *Report of the Auditor General of Canada to the House of Commons-1966*, Ottawa, p. 181

<sup>8</sup> Canada, House of Commons Standing Committee on Public Accounts, *Minutes of Proceedings and Evidence*, 6, November 14, 1974, p. 3

the department's proposals had found essential agreement which prompted a submission to Treasury Board Ministers, which in fact never was dealt with by the Ministers of the Board.<sup>9</sup>

1974 —In October 1974 a joint committee of the *Privy Council Office* and the *Treasury Board Secretariat* was set up and given the responsibility of studying cost recovery of the services supplied within the government by common service agencies. A Sub-Committee was established to look at "Charging for Services Provided by DPW".

—The First Report of the *Public Accounts Committee* referred to the discussions between DPW and Treasury Board about charging departments for accommodation services. The Report stated, "the Committee felt that the *Department of Public Works* and the *Treasury Board* had delayed much longer than necessary in submitting a suitable plan. A serious lack of communication certainly appears to exist between two of our senior branches."<sup>10</sup> Once again the Committee commented that if "rental costs were allotted to the actual departments leasing this space, the departments would be more cautious in their forecasts, more modest in their choice of office building and would make a more determined effort to avoid overspending of their budget allotment."

1975 —The joint sub-committee of the *Privy Council Office* and the *Treasury Board* forwarded a report on "Charging for services provided by DPW" to the Privy Council Office in February 1975. DPW had recommended that rental costs be charged to individual departments and that expenditures of DPW be financed out of the revenue derived from rental costs. The sub-committee report opposed the recommendation of Public Works.

—The representative of the *Department of Public Works* who served on the joint sub-committee disassociated himself with the sub-committee's position, and filed a minority report with the Privy Council Office in April 1975.

—In April 1975, the newly appointed Minister of Public Works, Mr. Drury, resubmitted to the Treasury Board a formal recommendation on charging for DPW services. This proposal was substantially the same format as the 1973 departmental submission.

---

<sup>9</sup> Letter to the Chairman from G.B. Williams, November 15, 1976

<sup>10</sup> Canada, House of Commons Standing Committee on Public Accounts, Op, Cit., p. 4



—In their Third Report and their Fourth Report, the *Public Accounts Committee* recommended that rental costs be charged to the actual departments so that they would be more careful in their planning.<sup>11</sup>

1976 —In May 1976, the *Public Accounts Committee* discussed the 1975 recommendation of the Auditor General about charging client departments for accommodation.<sup>12</sup>

Representatives of the *Auditor Genral*, the *Department of Public Works* and the *Treasury Board Secretariat* were present for a discussion of the report of the joint sub-committee on cost recovery. There was no comment or recommendation about cost recovery in the next Report of the Public Accounts Committee made in June 1976.

—On September 14, 1976 Mr. Judd Buchanan was appointed Minister of Public Works, to succeed Mr. Charles Drury.

—On September 16, 1976, *Department of Public Works* received a memorandum from the *Privy Council Office* that the proposal to charge departments for accommodation provided through DPW was “no longer under active consideration by the *Privy Council Office* and the *Treasury Board Secretariat*.”<sup>13</sup>

—In his 1976 Report, the *Auditor General* wrote: “to permit an informed review of programs, due consideration must be given to all component costs, including that of providing accommodation.”<sup>14</sup> The Auditor General also reported that the Treasury Board Secretariat had accepted the majority report of the Task Force on Cost Recovery which rejected the principle of cost recovery. He added that the cost of administering a cost recovery system could outweigh the advantages, and that it is quite possible that the desirable cost consciousness could be achieved by other means.

1977 —In this 1977 Report, the Auditor General repeated his recommendation that a cost charge-back system should again be considered by Treasury Board once it is possible to assess the effectiveness of the controls which the Board has established.<sup>15</sup>

---

<sup>11</sup> Canada, House of Commons Standing Committee on Public Accounts, *Minutes of Proceedings and Evidence*, 35, June 26, 1975, 36, November 25 and 27, 1975, December 2, 4, and 9, 1975

<sup>12</sup> Canada, House of Commons Standing Committee on Public Accounts, *Minutes of Proceedings and Evidence*, 57, May 6, 1976

<sup>13</sup> Letter to the Chairman from G.B. Williams, November 15, 1976

<sup>14</sup> Canada, *Report of the Auditor General of Canada to the House of Commons-1976*, Ottawa, p. 88

<sup>15</sup> Canada, *Report of the Auditor General of Canada to the House of Commons-1977*, Ottawa, p. 136



## APPENDIX B

### EXTRACT FROM T.B. CIRCULAR NO. 1975-80 736553

May 29, 1975

To: Deputy Heads of Departments and  
Heads of Agencies

**Subject: Federal Land Management**

#### **Introduction**

1. Cabinet has approved a new policy for the management of federal lands. The purpose of this circular is to reiterate the policy, to establish the procedures to be followed in its implementation and to outline the resulting implications for departments and agencies.

#### **Policy**

2. The basic principle of the policy is that federal land should be managed so as to combine the efficient provision of government services with the achievement of wider social, economic and environmental objectives.

3. In keeping with this principle, federal land holdings which are no longer required to meet the operating needs of particular departments and agencies will normally be retained in federal ownership to help achieve broad government objectives.

4. The policy recognizes that the magnitude of the federal urban and rural holdings gives them a strategic importance and justifies the need for a more integrated approach to federal land management. Historically, federal lands have been used mainly to meet specific program needs. The new policy establishes a land-management process that takes into account the wider public interest in addition to the needs of departments and agencies.

5. Preliminary guidelines concerning the social, economic and environmental factors to be taken into account in implementing the policy are covered in Appendix A. Definitions of the terms used in this circular are given in Appendix B.

6. This circular is intended to ensure that all three of the main elements of land management (acquisition, use and disposal) are properly co-ordinated and integrated to meet the objectives of the policy. The existing requirements and

procedures governing submissions to the Treasury Board and Governor-in-Council remain unaltered. However, to ensure that action on such submissions is not delayed as a result of the review system which is introduced by this circular (see para. 12), departments and agencies are encouraged to ensure that this review will be undertaken at the earliest possible stage in their land-management planning process.

## **Appendix A—Federal Land Management Social, Economic and Environmental Factors**

### **Typical factors to be considered:**

A. The ways in which federal real property can be managed to support local and national *social* objectives:

1. Congruence with local, regional and provincial development plans and strategies;
2. Extent of local acceptance or resistance;
3. Relationship between federal installations and local services and amenities.

B. The ways in which federal real property can be managed to support local and national *economic* objectives:

1. Impact of federal installations on the economic vitality of the locality and its relationship to federal economic objectives;
2. Impact with respect to local investment cost and opportunity cost of adapting land use for public purposes;
3. Impact of the federal land development on the local housing and employment situations.

C. The ways in which federal real property can be managed to support local and national *environmental* objectives:

1. Compatibility with the local environment in terms of land-use possibilities, aesthetics, neighbourhood characteristics;
2. Conformity with Department of the Environment guidelines and regulations.

The extent to which these factors will affect decisions on specific projects will vary depending on such other factors as location of the site, size of the project, timing and the nature of the departmental program need.



## APPENDIX C

### **Submissions**

Associations and firms submitted briefs to the Committee. The Committee appreciates the time and effort involved in preparing these submissions and wishes to acknowledge their contribution.

### **ARCHITECTS—ASSOCIATIONS**

**Architects Association of New Brunswick**  
**Rothsay, New Brunswick**

**Architects Association of Prince Edward Island**  
**Charlottetown, P.E.I.**

**Architectural Institute of British Columbia**  
**Vancouver, British Columbia**

**Nova Scotia Association of Architects**  
**Halifax, Nova Scotia**

**Ontario Association of Architects**  
**Toronto, Ontario**

**The Royal Architectural Institute of Canada**  
**Ottawa, Ontario**

### **ARCHITECTS—FIRMS**

**Arthur Erickson Architects**  
**Vancouver, British Columbia**

**Brook Carruthers Shaw Architects**  
**Toronto, Ontario**

**Cohos, Evamy & Partners**  
**Calgary, Alberta**

**David Boulva Cleve**  
**Montreal, Quebec.**

**Forrester, Scott, Bowers, Cooper, Walls**  
**Saskatoon, Saskatchewan**

**GBR Associates Architects Engineers**  
**Winnipeg, Manitoba**

**Grolle Architect & Engineer Limited**  
**Regina, Sasatchewan**

**Helmer Associates**  
**Ottawa, Ontario**

**Jack M. Ross FRAIC Architect**  
**Winnipeg, Manitoba**

**John Leaning Architect & Urban Design Consultant**  
**Ottawa, Ontario**

**Larose, Laliberté & Petrucci**  
**Ville Mont-Royal, Quebec**

**Lithwick, Johnston & Moy**  
**Ottawa, Ontario**

**Marani, Rounthwaite & Dick**  
**Toronto, Ontario**

**Mathers & Haldenby**  
**Toronto, Ontario**

**Meiklejohn, Gower, Fulker, Wallace & Maltby**  
**Kelowna, British Columbia**

**Murray & Murray & Partners**  
**Ottawa, Ontario**

**Neish, Owen, Rowland & Roy**  
**Toronto Ontario**

**Page & Steele Architects**  
**Toronto, Ontario**

**Schoeler & Heaton Architects**  
**Ottawa, Ontario**

**Shore Tilbe Henschel Irwin**  
**Toronto Ontario**

**The Gardiner Thornton Partnership**  
**Vancouver, British Columbia**

**The LM Architectural Group**  
**Winnipeg, Manitoba**

**The Webb Zerafa Menkes Housden Partnership**  
**Toronto, Ontario**

**Waisman Architectural Group**  
**Vancouver, British Columbia**

**Webber, Harrington & Weld Ltd.**  
**Halifax, Nova Scotia**

**Zeidler Partnership/Architects**  
**Toronto, Ontario**

## **SCHOOLS OF ARCHITECTURE**

**Carleton University**  
**Ottawa, Ontario**

**Nova Scotia Technical College**  
**Halifax, Nova Scotia**

**University of Manitoba**  
**Winnipeg, Manitoba**

**University of Montreal**  
**Montreal, Quebec**

**University of Toronto**  
**Toronto, Ontario**

## **CONSULTING ENGINEERS—ASSOCIATIONS**

**Association of Consulting Engineers of Canada**  
**Ottawa, Ontario**

## **CONSULTING ENGINEERS—FIRMS**

**Acres Consulting Services Limited**  
**Toronto, Ontario**

**Associated Engineering Services Ltd.**  
**Edmonton, Alberta**

**CBA Engineering Ltd.**  
**Vancouver, British Columbia**

**Damas and Smith Limited**  
**Winnipeg, Manitoba**

**E.F. Carpenter Associates Ltd.**  
**Fredericton, New Brunswick**

**Goodkey, Weedmark & Associates Limited**  
**Ottawa, Ontario**

**Intercontinental Engineering Limited**  
**Vancouver, British Columbia**

**James F. MacLaren Limited**  
Willowdale, Ontario

**J. L. Richards & Associates Limited**  
Ottawa, Ontario

**Parkin Architects Planners**  
Toronto, Ontario

**Robert Halsall and Associates Ltd.**  
Toronto, Ontario

**Saskmont Engineering Company Limited**  
Regina, Saskatchewan

**Stanley Associates Engineering Ltd.**  
Edmonton, Alberta

**Willis, Cunliffe, Tait & Company Ltd.**  
Victoria, British Columbia

**Woods, Gordon & Company**  
Ottawa, Ontario

**Wright Engineering Consulting Limited**  
Regina, Saskatchewan

#### **ASSOCIATIONS FOR THE HANDICAPPED**

**Action League of Physically Handicapped Adults**  
London, Ontario

**Canadian National Institute for the Blind**  
Toronto, Ontario

**Canadian Paraplegic Association**  
Toronto, Ontario

**Canadian Rehabilitation Council for the Disabled**  
Toronto, Ontario

**Handicapped Housing Society of Alberta**  
Edmonton, Alberta

**Ontario March of Dimes**  
Windsor, Ontario

**The Canadian Council of the Blind**  
London, Ontario

**The Ontario Federation for the Physically Handicapped**  
Toronto, Ontario



## CONSTRUCTION AND REAL ESTATE—ASSOCIATIONS

**Appraisal Institute of Canada**  
Winnipeg, Manitoba

**Building Owners' and Managers' Association of Ottawa Hull**  
Ottawa, Ontario

**Canadian Construction Association**  
Ottawa, Ontario

**Canadian Institute of Public Real Estate Companies**  
Toronto, Ontario

**Montreal Real Estate Board**  
Montreal, Quebec

**Ontario Real Estate Association**  
Don Mills, Ontario

**The British Columbia Real Estate Association**  
Vancouver, British Columbia

**The Canadian Real Estate Association**  
Don Mills, Ontario

**Urban Development Institute**  
Don Mills, Ontario

## CONSTRUCTION AND REAL ESTATE—FIRMS

**A. E. LePage Limited**  
Toronto, Ontario

**Cadillac Fairview Corporation Limited**  
Toronto, Ontario

**Campeau Corporation**  
Ottawa, Ontario

**Great National Land & Investment Corp. Ltd.**  
Nanaimo, British Columbia

**Marathon Realty Company Limited**  
Toronto, Ontario

**MEPC Canadian Properties Limited**  
Toronto, Ontario

**Olympia & York Developments Ltd.**  
Toronto, Ontario

**Ottawa Elgin Investments**  
Montreal, Quebec

**Oxford Development Group Ltd.**  
**Edmonton, Alberta**

**Ron Engineering and Construction Ltd.**  
**Ottawa, Ontario**

**S.B. McLaughlin Associates Limited**  
**Mississauga, Ontario**

**Sifton Properties Ltd.**  
**London, Ontario**

**The Royal Trust Company**  
**Montreal, Quebec**

## APPENDIX D

### WITNESSES WHO APPEARED BEFORE THE COMMITTEE

<u>Issue Number</u>	<u>Date</u>	<u>Witness</u>
1	November 9, 1976	(From the Department of Public Works) The Honourable Judd Buchanan, Minister; Mr. G. B. Williams, Deputy Minister; Mr. R. Fournier, Director General, Finance
2	December 7, 1976	(From the Department of Public Works) Mr. G. B. Williams, Deputy Minister; Mr. Guy Desbarats, Assistant Deputy Minister, Design & Construction Mr. R. J. Fournier, Director General Finance; Mr. J. Burgoin, Director General, Property Administration; Mr. F. S. Currie, Director General, Property Services
4	December 9, 1976	(From the Department of Public Works) Mr. G. B. Williams, Deputy Minister; Mr. F. S. Currie, Director General, Property Services; Mr. R. J. Fournier, Director General Finance; Mr. R. Papanek, Director General Property Development Branch; Mr. J. Burgoin, Director General, Property Administration
6	February 1, 1977	(From the Department of Public Works) Mr. Guy Desbarats, Assistant Deputy Minister, Design & Construction; Mr. G. N. Diamond, A/Director General Finance; Mr. A. G. Wilson, Director General, Technological Research and Development; Mr. F. S. Currie, Director General, Property Services Branch; Mr. H. D. McFarland, Director General National Capital Region; Mr. A. B. Mundy, Director, Accommodation Facilities Development; Mr. J. E. Wilkins, Director, Building Design; Mr. K. C. Stanley, Director, Environmental Design
7	February 15, 1977	Mr. John A. Macdonald, Chairman, Export Development Corporation
8	February 17, 1977	(From the Department of Public Works) Mr. John A. H. MacKay, Deputy Minister; Mr. Guy Desbarats, Assistant Deputy Minister, Design & Construction; Mr. F. S. Currie, Director General, Property Services;

## Accommodation Program

- Mr. D. J. Hartt, Director General, Planning & Co-ordination  
 Mr. J. Burgoin, Director General, Property Administration;  
 Mr. G. N. Diamond, A/Director General, Finance
- 9      March 2, 1977      (From Treasury Board)  
 Mr. M. A. J. Lafontaine, Deputy Secretary, Administrative Policy Branch;  
 Mr. Stuart Mensforth, Deputy Secretary, Financial Administration Branch;  
 Mr. A. D. Wilson, Director General Government Services Division;  
 Mr. D. D. Harris, Director, Administrative Standards Division;  
 Mr. C. Brandwood, Senior Project Officer, Financial Policy Development.
- 10     March 3, 1977      (From Post Office Department)  
 Mr. R. W. Rapley, Director General, Engineering & Technical Services;  
 Mr. G. F. Hoffos, Manager, Long Range Facilities Planning (From Department of Transport)  
 Mr. R. A. Dodunski, Director, Administrative Services;  
 Mr. R. G. Webb, Manager, Accommodation and Building Service (Administrative Services)  
 (From National Health & Welfare)  
 Mr. W. N. White, Director, Departmental Administrative Services, Administration Branch;  
 Mr. E. Thorpe, Associate Director General, Program Management, Medical Services Branch;  
 Mr. M. T. McElrone, Director, Finance and Administration, Health Protection Branch;  
 Mr. J. M. Roome, Chief, Accommodation Services Division.
- 13     March 17, 1977      (From the Department of Public Works)  
 Mr. John A. H. Mackay, Deputy Minister;  
 Mr. A. J. Perrier, Assistant Deputy Minister, Realty Planning and Development;  
 Mr. F. S. Currie, Director General, Property Services Branch;  
 Mr. H. D. McFarland, Director General, National Capital Region;  
 Mr. G. N. Diamond, A/Director General, Finance.
- 16     April 26, 1977      Mr. R. A. J. Phillips, Executive Director, Heritage Canada;  
 Mr. John Leaning, Architect & Urban Design Consultant in Ottawa;  
 (From the Department of Public Works)  
 Mr. Guy Desbarats, Assistant Deputy Minister, Design & Construction;  
 Mr. K. C. Stanley, Director, Environmental Design;  
 Mr. S. White, Head, Heritage Structures;  
 Mr. R. G. Calvert, Project Manager, National Capital Region.
- 17     April 28, 1977      (From the National Capital Commission)  
 Mr. Pierre Juneau, Chairman;  
 Mr. A. Bonin, Assistant General Manager, Planning (Quebec);



- Mr. R. D. Clack, Assistant General Manager, Planning (Ontario).
- 18 May 3, 1977 (From the Association of Consulting Engineers)  
Mr. P. T. Beauchemin, President (Montreal);  
Mr. J. J. Heffernan, Vice-President (Toronto);  
Mr. S. J. Cunliffe, Director (Victoria);  
Mr. H. R. Pinault, Managing Director (Ottawa).
- 19 May 5, 1977 (From the Royal Architectural Institute of Canada)  
Mr. W. D. Baldwin, First Vice-President;  
Mr. R. Elliott, Executive Vice-President.
- 20 May 17, 1977 (From A.E. LePage Limited)  
Mr. David Crawford, President, A.E. LePage Investment and Professional Services Ltd.;  
Mr. William Moore, Vice-President, A.E. LePage (Ontario) Ltd.;  
Mr. A. A. Stoddart, Vice-President, Commercial Development Division.
- 21 May 19, 1977 (From the Canadian Institute of Public Real Estate Companies)  
Mr. A. E. Diamond, Chairman and Chief Executive Officer, Cadillac Fairview Corporation Ltd.;  
Mr. R. A. Greiner, Vice-President of CIPREC, President and Chief Executive Officer of MEPC Canadian Properties Ltd.;  
Mr. J. Wiseman, Senior Vice-President, Trizec Corporation;  
Mr. Jean Paradis, Deputy Chairman, Campeau Corporation.
- 22 May 31, 1977 (From the Province of British Columbia in connection with the British Columbia Buildings Corporation)  
Mr. Donald N. Larsen, Liaison Coordinator to the British Columbia Buildings Corporation;  
Mr. William R. Sexsmith, Managing Partner, Peat Marwick and Partners, Vancouver B.C. Consulting firm retained by the Government of B.C.  
(From the Province of Ontario)  
Mr. W. A. B. Anderson, Secretary of the Management Board;  
Mr. J. C. Thatcher, Deputy Minister, Ministry of Government Services.
- 23 June 2, 1977 Mr. Dwight Ink, Former Deputy Administrator and Acting Administrator, U.S.A. General Services Administration
- 25 June 14, 1977 (From the Royal Bank of Canada—Real Estate Resources, Head Office Montreal)  
Mr. R. L. Arseneault, Deputy General Manager;  
Mr. R. King, Special Projects.  
(From Bell Canada)  
Mr. P. S. Thornton, Assistant Vice-President, Real Estate and Administrative Services (Toronto).
- 26 June 28, 1977 (From the Department of Public Works)  
The Honourable Judd Buchanan, Minister;  
Mr. John A. H. Mackay, Deputy Minister;  
Mr. Guy Desbarats, Assistant Deputy Minister, Design & Construction.

